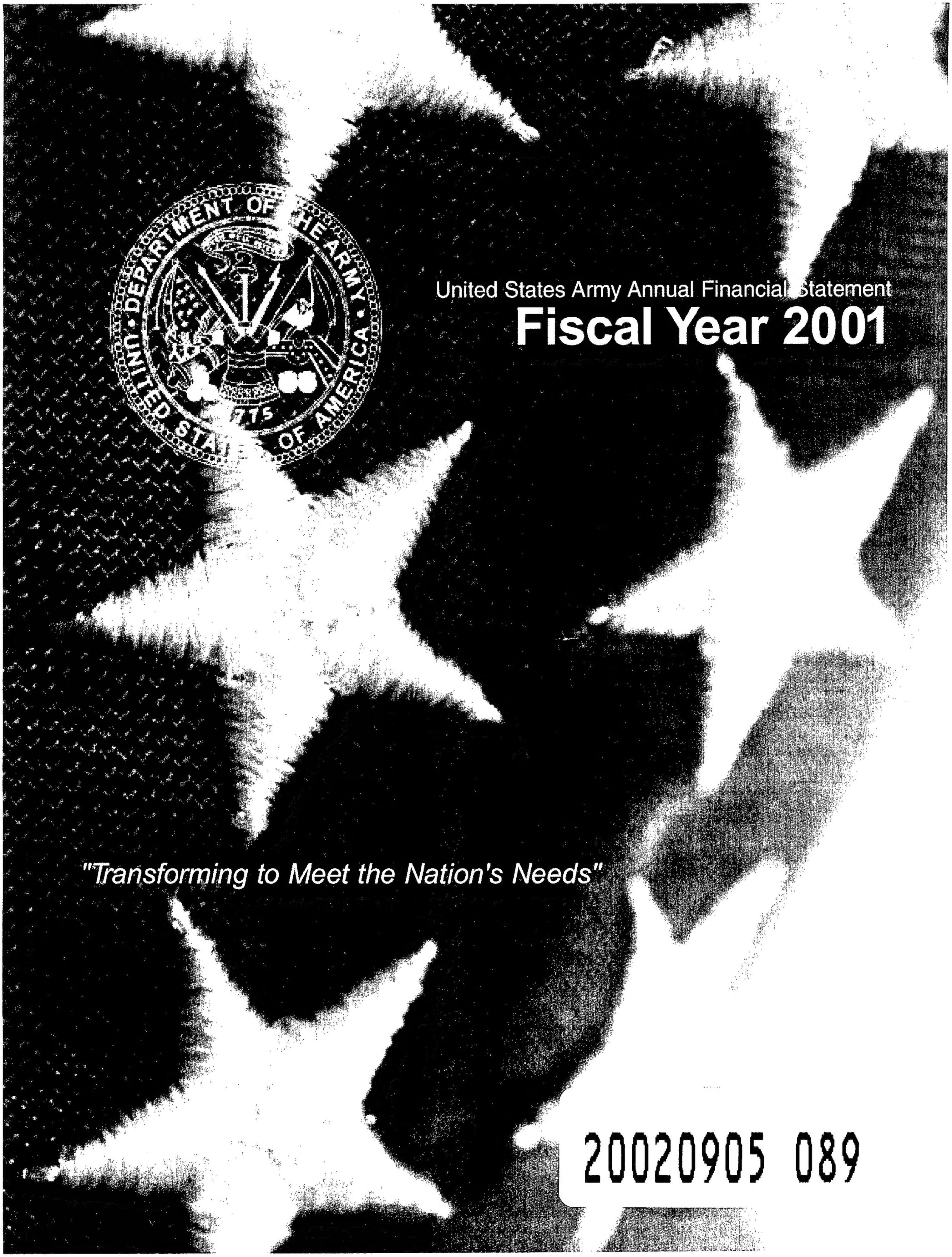

United States Army Annual Financial Statement

Fiscal Year 2001

"Transforming to Meet the Nation's Needs"

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*Unless otherwise indicated, all photographs in the FY 2001 Army Annual Financial Statement are courtesy of the U.S. Army.

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"Transforming to Meet the Nation's Needs"

The September 11, 2001 terrorist attacks in New York, Washington, and Pennsylvania changed forever our view of the world. Following the attacks we witnessed the very best of America, through the bravery of our fire, police, rescue, and emergency medical services, and through the thousands of ordinary citizens who helped by providing food, clothing, money, and blood. The Army also was there. In New York City and at the Pentagon, more than 3,000 active, National Guard, and Corps of Engineers soldiers and civilians responded to the call to provide medical and other humanitarian support, traffic control, and debris removal.

The attacks of September 11 provided shocking and very clear evidence of the changing nature of the threats to our country and underscored the importance of transforming the Army into a force that is more strategically responsive and dominant across the full spectrum of military operations. Our transformation not only involves applying the very latest technology across the force, but also includes changing our doctrine, our soldier training, and our leader development to ensure that our Army dominates the warfighting environments of the future.

In addition to transforming how we fight and win the Nation's wars, we are transforming how we conduct our business. We are seeking ways to use our resources more efficiently. We are also working to improve the quality and the timeliness of the financial information that we provide to our leaders so that they can make informed decisions. To that end, we are improving our financial management systems and integrating them with our logistics, personnel, and other management systems. As a result, we continue to make significant progress toward our goal of achieving an unqualified audit opinion on our financial statements.

America's freedom and security are of the utmost importance to its citizens and are necessary for our great nation to flourish. The Army's job is to help keep our country safe and, in turn, to protect our freedom. It is our responsibility to ensure that America continues to have the best Army in the world, paid for without wasting resources. We remain committed to fulfilling our obligations while employing the highest standards of integrity and efficiency.

Thomas E. White

Thomas E. White
Secretary of the Army

"Transforming to Meet the Nation's Needs"

The Army is pleased to issue its Annual Financial Statement for fiscal year 2001. For the third consecutive year, we have brought together the information of our three reporting entities: the General Fund, the Working Capital Fund, and the Civil Works Fund. This report includes information on how we are meeting our fiduciary and stewardship responsibilities within each fund.

As a consequence of the events of September 11, we have been unable to produce statements for the General Fund and the Working Capital Fund. In their place, we have provided a management discussion and analysis of these two funds. Additionally, we have prepared the complete management discussion and analysis and the financial statements for the Civil Works Fund. While we have yet to achieve an unqualified opinion on the financial statements for any of our three reporting entities, we firmly believe that we are moving in the right direction to achieve that goal.

One example of our progress is the Army-wide implementation of the Defense Property Accountability System (DPAS). Fully compliant with federal accounting and systems requirements, DPAS replaces outdated property systems that do not meet today's federal mandates. DPAS will enable us to properly account for and report on all Army general equipment. We will complete DPAS fielding during the next fiscal year in time for the 2002 financial statements.

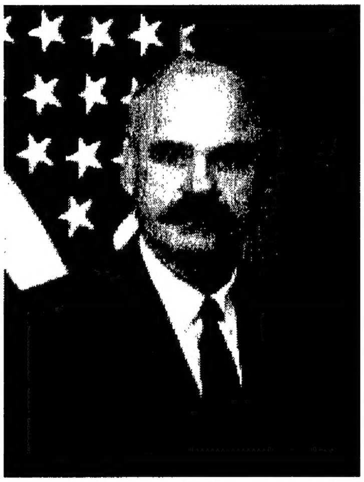
The Army is committed to using sufficient management controls to assure our continued stewardship of Army financial and materiel resources. Moreover, the Army's financial community is committed to providing Army managers with more relevant and reliable information to assess programmatic activities and to enable better decision making. As part of the Army's transformation for the 21st century, we are working diligently to modernize our management systems and improve our federal financial reporting.

Thank you for your interest in our FY 2001 Annual Financial Report. We invite you to visit the Assistant Secretary of the Army (Financial Management and Comptroller) Web site (www.asafmc.army.mil) for more information on Army financial management activities.

Sandra L. Pack

Sandra Pack
Assistant Secretary of the Army
(Financial Management and Comptroller)

"Transforming to Meet the Nation's Needs"



Since being appointed as the Assistant Secretary on October 3, 2001, it has been an honor and privilege to serve the soldiers, civilians and families that make the United States Army the most powerful and professional Army in the world. In this capacity, it has been especially rewarding to work with the Army Corps of Engineers.

The Corps has a proud history stretching back to the beginning of the country. Over the years, the Corps has evolved to emphasize its major Civil Works responsibilities of today -- conservation and development of the Nation's water resources, including flood control, navigation, environmental restoration and related purposes. All of these tasks are important; all are complex and demanding; and all require prudent management to ensure wise use of taxpayer dollars.

The dedicated military and civilian employees in the Corps have risen to every challenge in the past and will continue to do so in the future. Their dedication was immediately evident to me upon coming on board and seeing the Corps' efforts in responding to the tragic events of September 11, 2001. In New York City and Washington, D.C., Corps employees have been at the center of recovery efforts, particularly in managing debris removal and assessing structural damage.

The Fiscal Year 2001 Annual Financial Statement for the Civil Works Fund reflects solid contributions to our Nation's well-being. I look forward to continuing to serve with the Army and the Corps during this landmark era of change and transformation. I am excited about the challenges inherent in this job and am enthusiastic about the opportunities it presents in serving this great country.

Mike Parker
Assistant Secretary of the Army
(Civil Works)

Year in Review

"Transforming to Meet the Nation's Needs"

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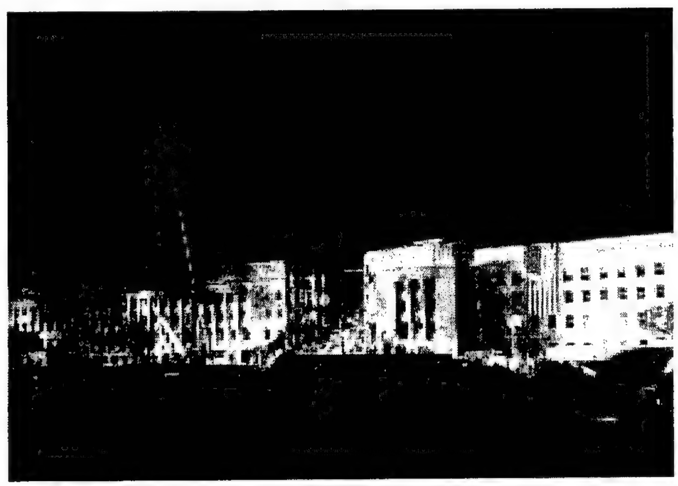
Year in Review

The Army is a strategic instrument of national policy that has served our country in peace and war for more than two centuries. Soldiers help America fulfill its global responsibilities and they safeguard our national interests. Their actions help make the world a safer place.

The U.S. Army is the most potent ground fighting force in the world, but we should never forget that our strength lies in the quality of the individual soldier. We must always seek to attract, train, motivate, and retain only the most competent and dedicated people, and we do this first and foremost by giving our soldiers the opportunity to grow with us to their full potential. We furthermore see the well-being of soldiers and their families as a key element to Army readiness. By looking after their families, we make it possible for our soldiers to focus fully on doing the nation's business, whenever and wherever required.


The portion of the Pentagon hit by a hijacked airplane on September 11, 2001, was illuminated as round-the-clock recovery efforts continued.

The Army is divided into three separate funding entities: the General Fund, Working Capital Fund, and Civil Works Fund. This annual report describes how these three funding entities support our people, Army readiness, and the transformation of our forces. Following the tragedy of September 11, 2001, the General Fund and Working Capital Fund received a waiver from the requirement to prepare and submit FY 2001 Financial Statements. The complete Financial Statements of the Civil Works Fund have been prepared and are included in this report.

General Fund

The General Fund provides funding for the Army mission, a non-negotiable contract to maintain at all times the readiness to fight and win the nation's wars. Each year Congress appropriates funds to the Army so that we may fulfill this contract. Brief descriptions of some of our most notable accomplishments of FY 2001 follow.

People. In FY 2001, we made important progress in improving the well-being of our people with a focus on education, compensation, and healthcare.

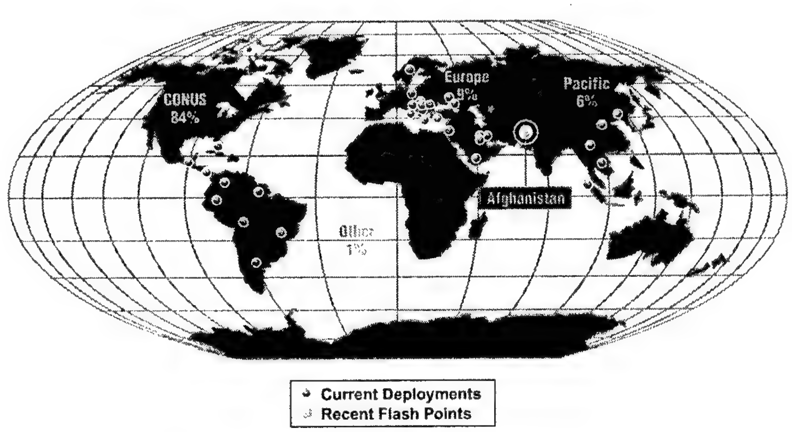
We continued to invest in Army University Access Online, or eArmyU. This program provides 100 percent tuition funding for

anytime, anyplace distance learning. Currently fielded at Forts Hood, Benning, and Campbell, eArmyU provides to soldiers a laptop computer, printer, and Internet service to enable them to pursue post-secondary degrees and certificates regardless of where they are currently stationed. You can access eArmyU at http://www.earmyu.com/.

Healthcare and compensation are also essential to well-being. In FY 2001 we eliminated most TRICARE copays for active duty families seeking the services of civilian health providers. We also extended TRICARE Prime Remote to family members who choose to live with soldiers in remote locations. We addressed the issue of compensation by providing a 3.7 percent increase and a one-time targeted adjustment for mid-grade enlisted soldiers. More information on the TRICARE program can be found at http://www.tricare.osd.mil/.

Readiness. We continue to forward-station soldiers and civilians all over the world. In FY 2001, we had 125,000 soldiers and 15,000 civilians stationed in more than 100 countries. In addition, we had a daily average of 27,000 additional soldiers engaged in operations and military exercises in 70 countries. These soldiers and civilians are supporting assigned missions such as the enforcement of United Nations sanctions against Iraq, stability operations in the Persian Gulf, and peacekeeping operations in Bosnia and the Sinai.

Where Your Army Is Today...



Engaged Around the World—Protecting national interests, supporting the National Security Strategy, and lending humanitarian assistance at home and abroad.

To improve the readiness of our early deploying units to conduct these and other missions, during FY 2001 we moved 34,000 soldiers to positions in our early deploying units that were previously vacant. This enabled some of these units, which typically support our combat divisions, to achieve C1 personnel ratings for the first time in five years.

We continued through FY 2001 to rely on our reserve components to deal with the high tempo of current operations. We had approximately 2,000 reserve component soldiers deployed in Bosnia, Kosovo, and the Middle East. Significantly, for the first time we also had reserve component soldiers from the North Carolina and Oklahoma Army National Guard performing active patrols in Bosnia.

Transformation. In 1990, Operation Desert Shield exposed an operational weakness in the capabilities of the Army's heavy and light forces. Our heavy armored forces, tailored for the Cold War, were formidable on the battlefield but were slow to deploy to where they were needed. Our light forces could readily deploy to the battlefield, but when they got there were not lethal or survivable enough for modern, conventional warfare.


A Platform Performance demonstration of 35 potential Light Armored Vehicles for new combat infantry brigades was conducted at Fort Knox, Kentucky.

To address this need, we are transforming the entire Army, from installations to leader development programs. We are changing doctrine, training, leaders, organizations, materiel, and our people. Everything will be impacted.

To achieve this transformation, we will transition through three forces: the Legacy Force, the Objective Force, and the Interim Force. The development of the Objective Force is our goal, but it is a long-term project. For the next 10 to 15 years, it is the Legacy Force that will fight and win America's wars. In FY 2001, the 4th Infantry Division demonstrated the results of our efforts to digitize our divisions; we will continue to digitize and upgrade selected legacy units until transition to the Objective Force is complete.

The Interim Force will fill the gap identified during Desert Shield until the Objective Force is fully fielded. Creation of this force will require the establishment of between six and eight Interim Brigade Combat Teams (IBCTs), equipped with more than 2,000 new Light Armored Vehicles and a Mobile Gun System.

Management Initiatives. We recognize that our current programs will over time become more expensive to maintain. It is therefore essential that we transform our business practices so that we can continue to take care of our people, sustain readiness, and complete our transformation into a force for the 21st century.

Improved housing shows our commitment to all soldiers and their families.

The Army has several business initiatives in place to introduce the necessary changes. The Residential Communities Initiative (RCI), for example, deals directly with our infrastructure challenges. Four pilot projects will privatize more than 15,000 family housing units at Forts Carson, Hood, Lewis, and Meade. Forts Carson and Hood have already transitioned to privatized operation, and agreements will be concluded at Forts Lewis and Meade in early 2002. We have also initiated 23 further privatization projects that will see 53,000 housing units convert to private management through 2002-2006.

Even more sweeping is the ongoing effort to transform our logistics processes. These efforts are vital to closing the requirements gap and to reducing the cost of readiness. We are transforming Army logistics from a system based predominantly on redundancy of mass to one based on velocity, mobility, and information. Our move to a Distribution-Based Logistics System (DBLS) is one of our most important initiatives, representing a fundamental change in our approach to logistics management. DBLS will comprise a set of reengineered processes, innovative policies, and advanced information systems. The result will be a seamless logistics system that relies on velocity and precision to link readiness management, distribution management, and asset management.

In addition, Army Secretary White has established the Business Initiatives Task Force to coordinate with the Department of Defense and to identify improvement opportunities. We will in the coming months implement several of the initiatives identified by this group.

Working Capital Fund

The Army Working Capital Fund (AWCF) finances the Army's four working capital businesses: Supply Management, Army; Depot Maintenance, Army; Ordnance; and Information Systems. These businesses help the Army to maintain readiness by providing the equipment, supplies, ordnance, and information systems necessary to support the deployment and projection of lethal force as and when required.

Depot Maintenance Activity Group has two primary responsibilities: maintenance and base operations.

The following are some AWCF business improvement highlights of FY 2001:

Single Stock Fund. In FY 2001, the Working Capital Fund undertook a reorganization of its operating structure, implementing the Single Stock Fund (SSF) initiative at the Supply Management, Army activity. Under SSF, the group now consists of a single wholesale division subdivided by commodity, with major subordinate commands under the U.S. Army Materiel Command managing assigned materiel stocks. By eliminating the middleman found in the retail subdivision model, we have increased the speed and efficiency at which we can provide combat support services thereby reducing the cost of service.

Wholesale Logistics Modernization Program. In addition to the implementation of the Single Stock Fund, in FY 2001 we began fielding the Wholesale Logistics Modernization Program (WLMP). Through the adoption of private sector supply chain and financial management best practices, WLMP will improve force readiness and mission performance, will enable us to take advantage of efficiencies in systems operations, and will improve system maintainability and adaptability. By combining logistics and financial data in an integrated cost accounting system, it will also provide full asset visibility. WLMP furthermore will interface with DoD-wide U.S. Standard General Ledger (USSGL) data to improve accounting and financial reporting within the Army Materiel Command.

Army Workload and Performance System. We completed implementation of the Army Workload and Performance System (AWPS) in FY 2001. AWPS is a human resources tool designed to analyze workload and to ensure the efficient allocation of resources across the AWCF. As a result of implementing AWPS, we are better able to estimate and schedule workflow, monitor per-

formance, and control overhead; we have also improved our responsiveness to customer requests. By taking advantage of the efficiencies inherent in a workload-based system, AWPS thus contributes to the provision of agile, more responsive support for the warfighter.

Civil Works Fund

The U.S. Army Corps of Engineers has served our nation, through peace and war, for more than 200 years. The Corps traces its origins to the construction of the fortifications at Bunker Hill in 1775, service in the Revolutionary War, and then peacetime service opening the Western frontier. Over time our military and civil missions have evolved and continue to evolve to meet the needs of the nation. Today the civil mission includes development and management of navigation, flood and coastal shore damage reduction; environmental protection and restoration; hydroelectric power; recreation; water supply and emergency management programs.

Today, the Corps is the world's largest public engineering, design, and construction management agency. Military and civilian engineers, scientists, and a range of other specialists work hand-in-hand in divisional and district offices throughout the world and at four major laboratories and research centers to provide leadership in engineering and environmental matters.

Summary of Performance Results

The Civil Works Program is divided into nine outcome-oriented business programs, all of which contribute to the economic well-being and quality of life of our nation. We have established key performance goals for the nine programs, our progress in the pursuit of which demonstrates our focus on achieving congressionally authorized program purposes. The following are highlights of our FY 2001 performance.

Environment. Each of our business programs addresses environmental issues, but two are focused specifically on our mission to protect, restore, and manage the environment. The Environmental business program emphasizes environmental stewardship, ecosystem restoration, mitigation, environmental compliance, and research and development. During FY 2001, we continued to improve on our management of 713,374 acres of mitigation lands by achieving 78 percent of prescribed mitigation requirements. We participated in recovery programs for 78 federally listed species, engaging in 491 separate opportunities to benefit these species or their habitats. We also corrected 67 percent of significant environmental findings and 62 percent of major findings in FY 2001 at Corps-operated facilities. Complete correction of those findings, which were left open at the end of FY 2001, will be accomplished in FY 2002 subject to availability of funds. The correction of these findings eliminates the immediate threat the findings pose to the environment.


A Great Blue Heron in South Georgia.

Recreation. Most federal lakes were originally built for purposes other than recreation. Public needs and values have changed, however, and we have sought to serve the evolving public interest by adapting our reservoirs for multiple uses, including recreation where there is sufficient legislative authority and economic justification to do so. We operate more than 4,000 recreation sites at 456 water resources projects in 43 states. During FY 2001, the number of visitor-days at our outdoor recreation areas decreased slightly from 212 to 209 million, while our cost per visitor-day increased slightly from $1.24 to $1.28. In addition, the recreation program supports 500,000 full-time or part-time jobs and generates annual visitor recreation-related spending of $15 billion.


Accessible archery at the Corps' Conemaugh River Lake, Saltsburg, Pennsylvania.

Army Systems Controls and Legal Compliance

The Army has an active, aggressive management control process that has been thoroughly institutionalized at all levels. Administration of the process stresses accountability for establishing effective management controls, for conducting formal evaluations of these controls, and for ensuring that management control deficiencies are reported and corrected.

The Army continues to place a high priority on improving its financial management processes and associated systems. During FY 2001, we built upon the progress made during FY 2000 to bring more of our critical feeder systems into compliance with the Chief Financial Officers Act, with the result that they are better able to produce the reliable and relevant information essential to efficient management. The replacement of Army feeder systems with new or evolving systems means that the number of noncompliant systems continues to diminish. Those critical feeder systems not scheduled for replacement are being evaluated to determine what corrective action is necessary to achieve compliance.

General Fund

"Transforming to Meet the Nation's Needs"

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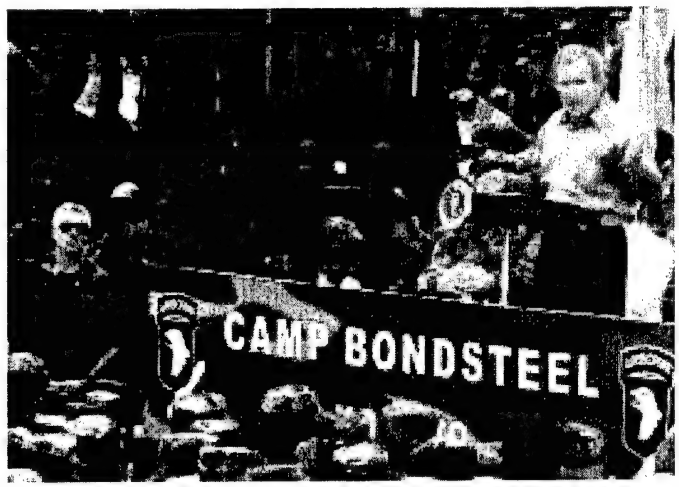
General Fund—Overview

Founded in 1776 to fight our first war, the Army celebrated its 225th birthday in 2001. Throughout its history, the Army has been structured to meet national needs as defined by our civilian leadership and the times at hand. Six years after its founding, the Army was downsized by the Continental Congress to just 80 men, 25 of whom were assigned to Fort Pitt and 55 to West Point and "other magazines." We have, since that modest beginning, been in a constant state of change, evolving through the years to fight in many wars and conflicts, from the fields of Gettysburg to the beaches of Normandy, the jungles of Vietnam, and the deserts of Iraq. The one thing that has not changed is our commitment to America. Indeed, the Army is a strategic instrument of national policy, and it is the most formidable land force on earth. Our 480,000 active soldiers, 350,000 National Guardsman, 205,000 Army Reservists, and 216,000 civilian employees stand ready to serve whenever and wherever required.



President George W. Bush speaks to U.S. soldiers and troops from other NATO nations at Camp Bondsteel in Kosovo on July 24, 2001. The President is visiting the Task Force Falcon soldiers to show support for the troops in Kosovo. (DoD photo by Staff Sgt. Clinton J. Evans, U.S. Army)

The events of September 11, 2001, demonstrate how the nature of battle is changing. We must today be able to project power anywhere in the world, including to the most remote, desolate, landlocked, and infrastructure-poor areas on earth. Anticipating this need, two years ago we announced a new vision for the Army, calling for a strategic transition from our Cold War design to that of a force able to meet the emerging challenges of the 21st century. We must at all times also be ready to carry out our current missions. Even as we are transforming the ways that we organize, staff, equip, and train our force and as we develop our future leaders, our soldiers are in the field fighting terrorism. It is only by bringing our vision to reality that we can best ensure that when this battle is won, we will be ready to go on and win the next.

"We are determined that before the sun sets on this terrible struggle, our flag will be recognized throughout the world as a symbol of freedom on the one hand, of overwhelming power on the other."

General George C. Marshall
Army Chief of Staff

This is not the first time the Army and America have faced such a challenge. General Marshall's words, spoken early in World War II, will prove as true now as they were then.

Mission and Organization

Mission

The Army has a non-negotiable contract to fight and decisively win America's wars and, through land force dominance, to establish conditions for lasting peace. As the world's most dominant land force, the Army enables America to seek first to avoid war through deterring aggression on the part of potential adversaries. Should deterrence fail, the Army is organized and trained for prompt and sustained combat, as directed by law.

"It is the intent of Congress to provide an Army that is capable, in conjunction with the other Armed Forces, of preserving the peace and security…of the United States... supporting the national objectives... and overcoming any nations responsible for aggressive acts that imperil the peace and security of the United States. [The Army] shall be organized, trained, and equipped primarily for prompt and sustained combat incident to operations on land...[and] is responsible for the preparation of land forces necessary for the effective prosecution of war except as otherwise assigned and, in accordance with integrated...mobilization plans, for the expansion of the peacetime components of the Army to meet the needs of war."

Section 3062, Title 10, United States Code

At home and abroad, the Army is required also to support the civil authorities, providing assistance and management capability in times of crisis. Our missions can range in scope from counter-drug operations to providing relief to victims of natural and man-made disasters.

A versatile Army, we are organized and prepared both to fight America's wars and to respond to the nation's peacetime needs.

What the Army Does and How We Do It

While the Army accomplishes its mission today and prepares for future mission, we are also in pursuit of a vision. First announced more than two years ago, the Army vision is composed of three clear elements: people, readiness, and transformation.

A California Guard Black Hawk drops a load of water on one of the many wildfires that plagued the state last year.

People

Our people are at the core of our ability to accomplish our mission, and their well-being is paramount: their physical, material, and mental states directly affects the Army's ability to fight and win America's wars. This is a readiness issue. It is critical that we preserve our ability to attract and retain the qualified personnel whom we can develop into tomorrow's leaders.

The well-being of our personnel affects the Army's readiness through its influence on the bond between leaders and subordinates. Soldiers must trust that their leaders are doing all that they can to sustain their well-being and that of their families. With the

security of knowing that their families are provided for, our soldiers can focus on their mission. Further, they are also more likely to remain with us, giving us greater ability to retain high-quality people. In FY 2001, the Army continued to enhance the well-being of its members through expanded educational opportunities, increased compensation, better healthcare, and improved housing.

"Above all, we must realize that no arsenal, or no weapon in the arsenals of the world, is so formidable as the will and moral courage of free men and women. It is a weapon our adversaries in today's world do not have."

President Ronald Reagan

It is essential that we have the best force possible to accomplish our mission. We believe that better educated soldiers are more competent and confident. Thus, during FY 2001, we continued to invest in Army University Access Online, or "eArmyU," a program that provides soldiers with 100 percent tuition funding for anytime, anyplace distance learning. Available at Forts Benning, Hood, and Campbell, the program also provides a technology package of laptop computer, printer, and Internet service provider account to enable soldiers to pursue post-secondary academic degrees and certificates.

"Platforms and organizations don't defend this nation; people do."

General Eric K. Shinseki
Army Chief of Staff

Compensation is also critical to a soldier's well-being. Our people serve with selfless devotion, but they should not be expected to sacrifice the well-being of their families in their service to America. In January 2001, Congress provided a much-needed 3.7 percent pay raise followed by a one-time adjustment targeted to mid-grade enlisted soldiers.

Today's soldiers are well educated, fit, and ready for any challenge.

FY 2001 also saw improvements in our provision of healthcare. With a few exceptions, active duty families no longer have to make TRICARE Prime co-payments for the care that they receive from civilian providers. TRICARE Prime Remote is furthermore being extended to family members who choose to live with soldiers assigned to remote locations. We are improving beneficiary education, in part through use of the Internet, and have achieved 83 percent satisfaction with accessibility to care and 88 percent satisfaction with quality of care. The net result for our soldiers and their families is lower out-of-pocket expenses, increased benefits, and greater sense of well-being.

Perhaps the most important quality-of-life issue, however, is housing. In FY 2001, we expanded our partnership with private industry in a residential community initiative that seeks to improve Army housing by capitalizing on private sector expertise, resources, and market-based incentives.

These and other factors contribute to our ability to attract and retain high-quality people, and the results of our efforts in these areas are encouraging. In FY 2001, for the second consecutive year, we reached our recruiting goal, signing up 35,000 new active soldiers and more than 41,000 Army Reservists. The improved well-being of our soldiers and families, coupled with innovative recruiting tools such as GoArmy.com and GoArmyReserve.com, are helping to ensure that we maintain a high-quality force ready to accomplish any mission.

"... at the battalion level and below, this is where I see the heart of readiness. ... Unless squads and platoons and companies can do what they need to do ... you're not ready."

General Eric K. Shinseki
Army Chief of Staff

Readiness

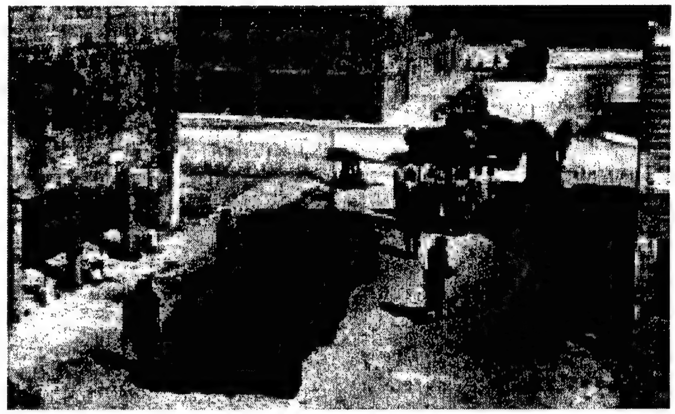
The Army's top priority is to maintain warfighting readiness. As our "go-to-war" force, the active component must be capable of undertaking immediate combat operations anywhere in the world. Our ability to do this depends in large part on the nature of our current engagements around the globe with our allies, partners, and even our potential adversaries. Forward-stationed and forward-deployed soldiers in the field advance American interests and support theater engagement plans while training for combat. These forces promote stability, strengthen our nation's influence overseas, and facilitate our access to trouble spots in times of crisis.

On any given day, the Army has over 125,000 soldiers and 15,000 civilian employees forward-stationed in more than 100 countries around the world. In FY 2001, we deployed more than 27,000 additional soldiers on a daily average for operations and military exercises in 70 countries. These soldiers and civilians are supporting assigned missions such as enforcing United Nations sanctions against Iraq, conducting stability operations in the Persian Gulf, and performing peacekeeping operations in Bosnia and the Sinai.

In instances where contingency operations become long-term commitments, as has happened in Bosnia, our mission tempo, both training and operational, can strain our forces. While we have manpower shortfalls in our active component combat forces, through our Manning Initiative we have successfully filled all personnel authorizations in our active divisions and cavalry regiments. In FY 2001, we brought in more than 34,000 soldiers to early-deploying units, those that most directly support the divi-

sions in combat. As a result, these units are achieving higher readiness, with some reaching the highest level of personnel readiness (C1) for the first time in five years.

We are nonetheless increasingly relying on reserve component forces. As FY 2001 drew to a close, we had almost 2,000 National Guard and Army Reserve soldiers serving in Bosnia, Kosovo, Saudi Arabia, and Kuwait. To ensure that the 1995 Dayton Peace Accords are not violated, National Guard soldiers armed with automatic weapons are, for the first time, patrolling the Bosnian countryside. A total of 176 infantry and armor soldiers from North Carolina's enhanced 30th Infantry Brigade and 170 infantry soldiers from Oklahoma's 45th Infantry Brigade are engaged in this very important duty, patrolling alongside active Army soldiers of the 3rd Infantry Division from Fort Stewart, Georgia.



Members of North Carolina Army National Guard man a checkpoint in a mock Bosnia town during a training exercise at Fort Bragg, North Carolina, in preparation for deployment to Bosnia.

Transformation

In 1990, Operation Desert Shield exposed an operational weakness in the capabilities of the Army's heavy and light forces. Our heavy armored forces, tailored for the Cold War, were formidable on the battlefield, but were slow to deploy to where they were needed. Our light forces could readily deploy to the battlefield, but when they got there were not lethal or survivable enough for modern, conventional warfare. We faced a clear need to transform into a more strategically responsive force, able to get to any battlefield quickly and able to dominate across the spectrum of military operations when we get there.

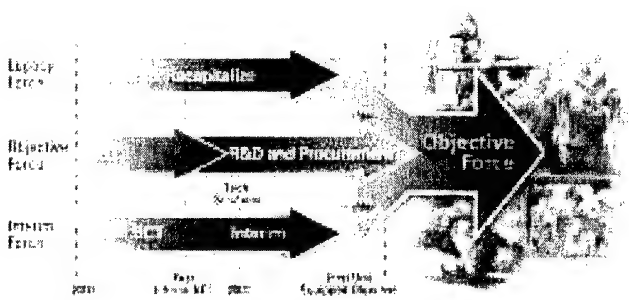
"The dangers of this new century are quite different from the familiar dangers of the past century."

Thomas E. White
Secretary of the Army

To successfully address this need, we must transform the entire Army, from installations to leader development programs. We will change doctrine, training, leaders, organizations, material, and our people. Everything will be impacted. Army Knowledge Management (AKM) is a key initiative to meeting this challenge. This comprehensive strategy to transform the Army into a network-centric, knowledge-based force will result in decision dominance by battlespace commanders and business stewards. It emphasizes the enterprise management of the information technology infrastructure in synch with the Global Information Grid, with

a view toward reducing the footprint and improving operations through the use of best business and governance practices and the emphasis on innovative human capital strategies. It is a key component of Army transformation.

Figure 1: Transformation Strategy



To achieve this transformation, we envision the creation of and transition through three forces: the Legacy Force, the Objective Force, and the Interim Force (see figure 1).

The development of the Objective Force is our goal, but it is a long-term project. For the next 10 to 15 years, it is the Legacy Force that will fight and win America's wars. The Legacy Force is a more capable force than that which fought Desert Storm, enhanced by the modernization, when appropriate, of obsolete equipment and the repair and refit of aging equipment. New command and control systems assist commanders to see, understand, and act decisively on the battlefield. In FY 2001, the 4th Infantry Division demonstrated the results of our efforts to digitize our divisions; we will continue to digitize and upgrade selected legacy units until transition to the Objective Force is complete.

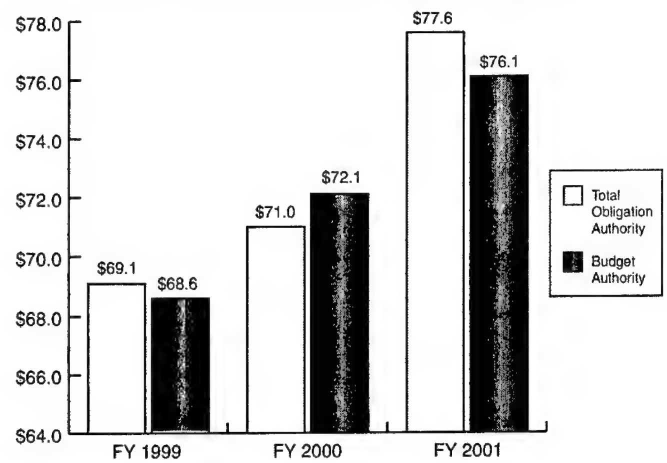
The Objective Force, our ultimate goal, is a system of integrated capabilities comprising space, air, and ground and direct and indirect fire. It will be seamlessly connected with command, control, communications, intelligence, surveillance, and reconnaissance. It will make the fullest use of technology and organizational adaptations to revolutionize our land-power capabilities. To accomplish this transformation this decade we are applying AKM. This comprehensive strategy emphasizes the enterprise management of the information technology infrastructure in synch with the Global Information Grid, with a view toward reducing the logistics footprint and improving operations. We are seeking to establish innovative partnerships with industry. Investment in the program is more than $1 billion per year; monthly reviews by the Chief of Staff monitor the potential returns on that investment and ensure that resources are concentrated on the most promising programs.

The Interim Force will fill the gap identified during Desert Shield until the Objective Force is fully fielded. Creation of this force will require the establishment of between six and eight Interim Brigade Combat Teams, equipped with more than 2,000 new Light Armored Vehicles and a Mobile Gun System. The Interim Force will ultimately serve as the vanguard of the Objective Force. Even as the Interim Force is being put in place, we are continuing to refine the doctrine, leadership training, and other elements necessary to ensure its success on the battlefield.

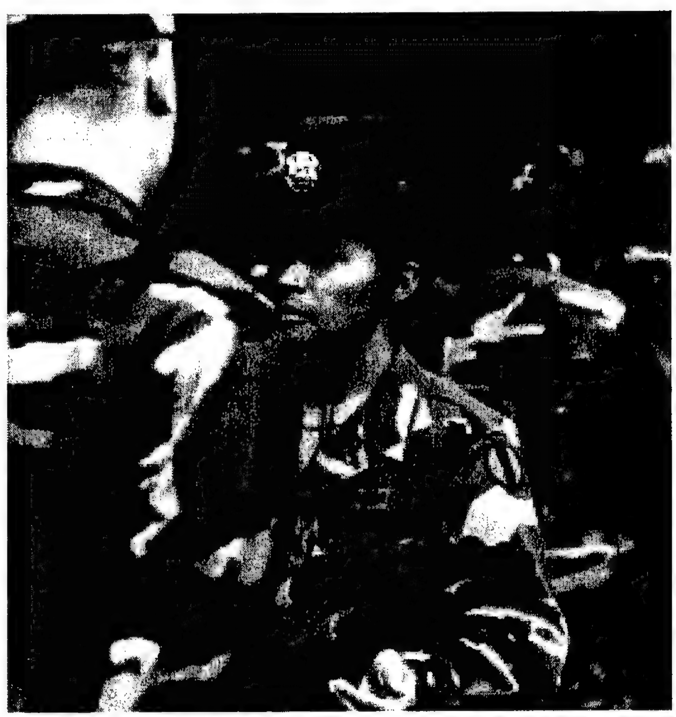
Sources of Funds

The Army's funding comes primarily from the Defense Appropriations Act and the Military Construction Act. In FY 2001, we used our resources to maintain the progress we recently achieved in readiness, quality-of-life programs such as housing and education, and modernization. We maintained our legacy systems and provided operational training that is unmatched anywhere in the world. We also invested in preparations for the future.

Figure 2: Budget Resources (Current Year Dollars)



In FY 2001, we began the process of transforming the Army into a force that will be strategically dominant at every point on the spectrum of operations. It is through this investment that we seek to assure the ability of the active component, the Army Reserve, the National Guard, and the civilian component of the Army to accomplish all that will be required of them in the future.



At the 120th Adjutant General Battalion Reception Center, SSG Sonya Gomez checks recruits' records before the new soldiers join their basic-training companies.

How the Organization Supports the Mission

The Army is an organization of integrated headquarters, staffs, commands, and units operating as a system to accomplish its Title 10 functions. Because of the size and complexity of the Army and its mission, it requires an approach that affords flexibility to its separate parts while enabling the leadership to retain command and control. The Army has three distinct subsystems: production, combat, and integrating. Each subsystem operates within a given environment to assure effectiveness.

The Production Subsystem

The Army is charged with forming organizations of people and machines "for the effective prosecution of war." Primarily, the production subsystem supports the combat subsystem. Through a number of diverse organizations, the production subsystem obtains the "raw materials" that the Army needs, recruiting untrained people, searching for new technologies, and dealing with the producers of required materiel.

Other elements of this subsystem then convert these raw materials into "intermediate goods." For example, training centers and schools turn untrained people into tank crewmen, infantrymen, and mechanics. Schools convert ideas and knowledge into doctrine, tactics, and training methods to enhance the capability of the combat subsystem. Laboratories, arsenals, and procurement and test organizations convert technology and contractor effort into weapons and equipment for combat.

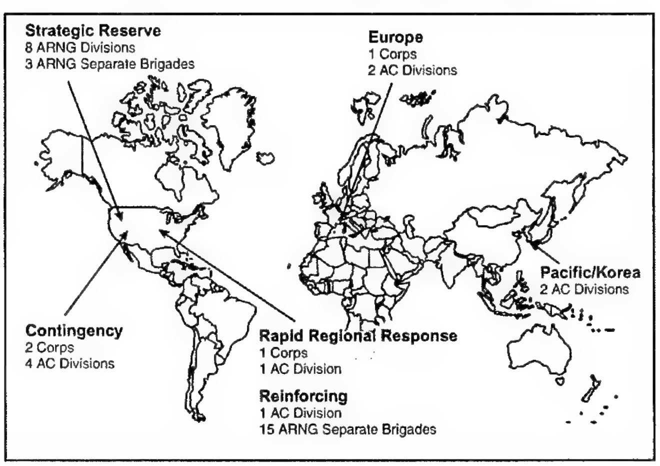
Members of the 501st MP Co. help an injured reporter after the town of Krivenik was hit by mortar fire.

The two major components of the production subsystem are the Training and Doctrine Command and the Army Materiel Command. The former produces the training, doctrine, and tactics needed to fight and win America's wars. The latter provides the materiel solutions needed by the warfighting units of the combat subsystem.

The Combat Subsystem

The combat subsystem converts the "intermediate goods" of the production subsystem into the mission-ready units that will fight our wars. It melds together individual soldiers, pieces of equipment, and doctrine to produce combat readiness. It stays abreast of potential threats and the needs of the unified combatant commanders to whom it provides ready forces.

Figure 3: Combat Force Stationing in FY 2001



The combat force structure is organized into corps and divisions placed under the peacetime command of the major Army commanders. The commanders are charged with keeping their assigned forces ready to fight whenever and wherever needed. These corps and divisions are either forward-deployed, prepared for rapid response or contingencies, or held for strategic reserve. Figure 3 shows the stationing of our major combat forces.

The active, reserve, and civilian components of the Army each play an integral part in enabling the combat subsystem to accomplish its goal of providing combat-ready forces. The active component forms the nucleus of the initial combat forces in a crisis. The reserve components reinforce and augment the active forces, either by unit or by individual replacements. The civilian component complements this subsystem by providing critical support and sustainment.

The Integrating Subsystem

The integrating subsystem ties the other two subsystems together and decides what must be done to ensure that the Army can accomplish its mission. Integration is the primary function of the Secretary of the Army and of the Army Chief of Staff. The Honorable Thomas E. White assumed duties as the 18th Secretary of the Army in May 2001; General Eric K. Shinseki has served as the 34th Chief of Staff since June 1999. Together they lead the Headquarters Department of the Army (HQDA) in ensuring that the major tasks required of the Army are accomplished.

HQDA is composed of two elements: the Army Secretariat (the civilian leadership) focuses on managing the business of the Army, and the Army Staff (military leadership) is responsible for planning, developing, executing, reviewing, and analyzing Army programs.

In performing its integrating function, HQDA determines the nature of the Army's mission requirements in conjunction with the Congress, the Department of Defense, and the other military services, and by assessing the nature of the threats faced by the nation. HQDA then charts a course for the Army, securing the necessary resources and allocating them to best accomplish the mission. HQDA continually monitors the performance of the other subsystems and effects change when performance does not meet requirements.

Management Integrity

If we are to remain the best fighting force in the world, the Army must maintain effective control over its resources. All commanders and managers have an inherent management control responsibility. We have evaluated our management controls and have found that, except as indicated, we have reasonable assurance that effective controls are in place.

"... [T]he stewardship of scarce public resources is a bedrock principle."

Thomas E. White
Secretary of the Army

In the 18 reporting years of the Federal Managers Financial Integrity Act, HQDA reported a total of 224 material weaknesses. At the beginning of FY 2001, we had only nine remaining identified material weaknesses. During the course of the year, one new weakness was identified and one was corrected. We are now working to correct the final nine.

Corrected Weaknesses

Individual Augmentation for Contingency Operations and Exercise Deployments

Previously, the Army could not tell how many people were involved in individual augmentation missions, where they were, or how long the mission was expected to last. Individual augmentees often received late notification, and in the case of low-density/high-usage personnel, were repeatedly tasked. Correcting this weakness was important to improve our ability to take care of our people.

Over the last two years, the Army has established an Individual Augmentation Branch, established new policies and procedures for conducting current operations, and activated a Worldwide Individual Augmentation System. In June 2001, the U.S. Army Audit Agency validated that this weakness had been corrected. This marked an important step forward in the way that we take care of people.

Continuing Challenges

We continue to work on correcting the remaining eight identified material weaknesses. Below, we describe our efforts on the four most significant ones.

Financial Reporting of Real Property and General Equipment

The Army does not meet Federal Accounting Standards for financial reporting of real property (land, buildings, and structures) and general equipment. To become compliant, Army records must capture the correct acquisition date and cost, which current Army sys-

tems were not designed to do. Correcting this weakness will require two major efforts. First, the costs recorded in Army equipment and logistics systems must be validated and reported, and where they are determined to be inaccurate, estimates of historical costs and the associated accumulated depreciation must be developed and reported. The Army, as part of a Department of Defense initiative, has been working diligently to determine the recorded costs; validate the existence and completeness of all property items; and, where costs are not recorded, develop reasonable estimates of historical costs. This will help the Army establish property, plant, and equipment values in accordance with generally accepted accounting methods.

Second, a CFO-compliant system must be implemented for reporting. The Army is consequently implementing the Defense Property Accountability System (DPAS) for reporting general equipment. DPAS will replace existing non compliant systems and will bring the Army into compliance with Federal Accounting Standards for general equipment. For real property, the Army Office of the Assistant Chief of Staff for Installation Management is assessing options to either modify or replace its current real property accountability systems.

Failure to meet this standard for financial reporting does not mean the Army lacks property accountability. However, the Army's inability to identify an item's acquisition date and cost prevents the computation of depreciation expense and the determination of book value for financial reporting. These shortcomings are major factors in our inability to obtain an unqualified audit opinion on our annual financial statements. We anticipate correcting this weakness for general equipment during FY 2002.

Pollution Prevention

The Army's pollution prevention program is not yet effectively integrated into all Army mission areas. Pollution prevention must be an integral part of the Army's acquisition and systems engineering processes, and all Army organizations must plan, program, budget, and execute their portion of the Army pollution prevention program. Our inability to meet these responsibilities properly has resulted in a failure to identify pollution prevention requirements and lost opportunities to resolve those requirements. Such opportunities could reduce the costs associated with weapons system acquisition, logistics, training, occupational health, safety, and environmental contamination and restoration.

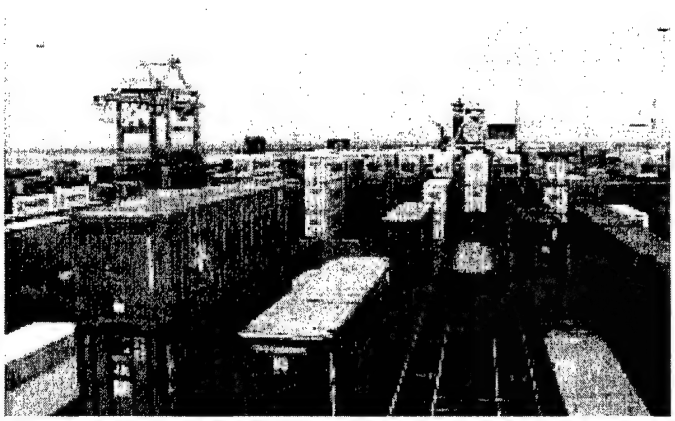
Opportunities also exist to achieve potential operational cost savings, to reduce health risks, and to reduce hazardous waste streams. The future costs and potential liabilities associated with environmental compliance and restoration are likely to increase if these issues are not addressed and resolved.

We are taking action to focus on the integration, across the Army, of pollution prevention and on ways in which Army communities can improve long-term cost avoidance through pollution prevention. In FY 2001, we addressed the pollution prevention requirements defined in the Program Objective Memorandum to ensure that our efforts to meet these requirements are adequately funded. We also began to integrate pollution prevention fully in weapons system development programs. Finally, we implemented a training program within the Army Acquisition Corps to ensure that pollution prevention is fully considered as a way of avoiding unnecessary costs. We expect to correct this weakness in FY 2002.

Manpower Requirements Determination

The Army is working to establish effective manpower programs for managing and controlling our Tables of Distribution and Allowances (TDAs) workload, organizations, and manpower staffing, including reductions in force. We are seeking to link workload, manpower requirements, and dollars so that we can reliably predict future manpower requirements based on workload. Once this has been successfully achieved, we will be able to provide managers with the information needed to improve work performance and increase organizational efficiency, while better determining and supporting staffing needs, manpower budgets, and personnel reductions.

In FY 2001, we provided the Major Commands with the ability to view their manpower and costing position via the Internet. We also fully integrated workload-based military, civilian, and contractor manpower requirements into the Total Army Analysis model. Most of our work is completed, and we expect to correct this weakness in FY 2003.



The Army is capitalizing on new technologies to maintain total asset visibility of goods while in transit.

In-Transit Equipment Visibility

Systems interface and logistics process problems cause a significant portion of the in-transit records displayed by the Continuing Balance System-Expanded (CBS-X) to be invalid. The equipment involved is received and reported as on-hand by the receiving units, but the receipt transactions do not close out the shipment (in-transit) records. As a result, the Army lacks reliable data on the value of equipment in transit, and the value of in-transits reported on the Army's financial statements is misstated by a significant but unknown amount. Some units have also experienced unnecessary delays when requisitioning equipment because invalid in-transit records have caused requisitions to be rejected.

We plan to correct the identified process problems, and in so doing to reduce error rates to an acceptable level. We will not aim for a completely error-free posture, as we believe that any attempt to do so would be neither practical nor cost-effective. We expect to correct this weakness in FY 2002.

Summary

The Army is aggressively seeking to identify material weaknesses and to correct them. We recognize that an effective program for reviewing and improving management controls is vital to good stewardship. We take our stewardship responsibilities very seriously.

Future Financial Trends and Business Events

As the Army transforms to a 21st-century force, we must face the challenge of matching resources to requirements as we seek to realize our vision for people, readiness, and transformation.

Emerging Challenges and Trends

The Requirements Gap

The requirements gap exposed in Desert Storm has yet to be corrected. As Iraq overran Kuwait City and moved south to threaten the airfields and ports that our heavy forces would need in order to gain entry to the region, we responded by sending a brigade of light infantry to block Iraq's further advance. This force lacked both a robust anti-tank and artillery capability. It is not a battle we would have designed. Iraq's heavy mechanized forces were advancing against light infantry because we couldn't get our own heavy, more lethal forces there quickly enough. That condition has yet to be corrected.

"We must build ... a future force that is defined less by size and more by mobility and swiftness."

President George W. Bush

The Army that fought Desert Storm is essentially the Army of today. While it remains a magnificent army, it was designed for the Cold War that ended more than10 years ago. The missions that we must perform today include the provision of humanitarian assistance, the evacuation of noncombatants from the most remote corners of the world, peacekeeping, and the conduct of a major theater war. This demands that we transform into a flexible force that is light enough to get there quickly, lethal enough to overwhelm any enemy, and survivable enough to stay the course.

1LT Steve Cunningham of the 9th Inf. crawls beneath barbed wire during training at Camp Casey, Korea.

High Operational Demands

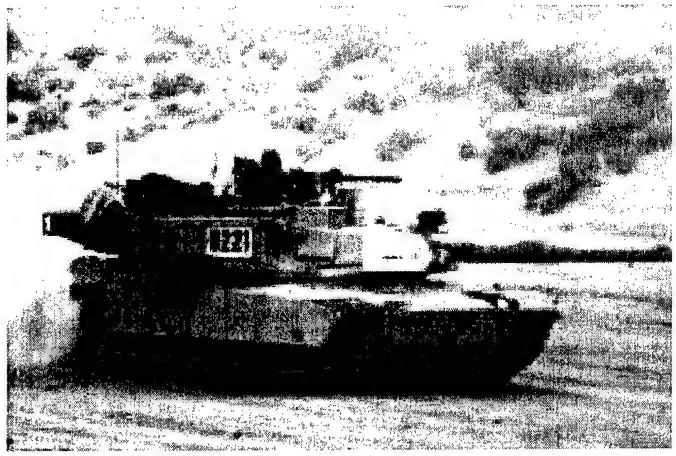
The U.S. Army is the most capable army in the world. The emerging requirement to accomplish increasingly long-term contingency missions will challenge the readiness and tempo of our personnel and units, major weapons systems, and infrastructure. We have maintained the readiness of our forward-deployed and "first-to-fight" forces at the expense of our non divisional and reserve component units and the institutional Army. We expect that excessive operational demands will continue to take their toll and will force our continued reliance on the reserve component.

Aging Work Force

The Army must transform its work force. An increasing number of our civilian personnel are nearing retirement age, presenting a problem that has been exacerbated by recent personnel reductions and hiring freezes. Indeed, the hiatus of new civilian personnel hires has created a shortage of civilians to fill the leadership positions that soon will be vacated by retirees.

Increasing Cost to Maintain Near-Term Readiness

The nature of our mission, to fight and win America's wars, demands that we maintain near-term readiness. This limits our ability to recapitalize the force, which in turn makes it difficult to maintain aging equipment to high readiness standards. Since 1995, operations and sustainment costs have risen by more than 35 percent. Seventy-five percent of our major combat systems will exceed their design life by 2010. These aging systems must be maintained to ensure near-term readiness, but the cost to maintain them is rising as they break down more frequently and become more difficult to repair.


4th ID soldiers and equipment begin moving into the desert maneuver area at the National Training Center to begin battle.

Deteriorating Infrastructure

The need to maintain near-term readiness will also continue to put pressure on our ability to recapitalize our aging facilities. We must find ways to maintain, modernize, and transform the training platforms and ranges that prepare the force; the depots and arsenals that maintain and equip the force; and the power projection platforms and information infrastructure that support the force when deployed. Taking care of installation infrastructure is absolutely essential to maintaining readiness.

We would prefer to divest ourselves of excess infrastructure and to use the resulting savings to maintain critical facilities or fund other priorities. Until we can do this, we will be forced to draw from our training funds to sustain our facilities. We have an $18 billion backlog of work for sustaining, restoring, and modernizing our current facilities and a $25 billion deficit in unfunded new facility requirements across the Future Years Defense Plan. Resolution of this situation will require a long-term commitment to fully fund sustainment and to focus restoration and modernization funding on selected facility types.

Business Initiatives

The challenges and trends described in the previous section do not permit maintenance of the status quo. Without change, our current programs will over time become more expensive to maintain. It is essential that we transform our business practices to take care of our people, to sustain readiness, and to complete our transformation into a force for the 21st century.

The Army has several business initiatives in place to introduce the necessary changes. The Residential Communities Initiative (RCI), for example, deals directly with our infrastructure challenges. Even more sweeping is the ongoing effort to transform our logistics processes. These efforts are vital to closing the requirements gap and to reducing the cost of readiness.

In addition, Secretary White has established the Business Initiatives Task Force to coordinate with the Department of Defense and to identify improvement opportunities. We will, in the coming months, be implementing several of the initiatives identified by this group.

Ongoing Initiatives

Residential Communities Initiative

Because housing management is not a core activity and because it is readily found in the private sector, the Army is implementing an aggressive program to attract private sector expertise and capital to create modern residential communities and improve the quality of Army family housing. Through the RCI, the Army is leveraging appropriated funds and government assets by entering into partnerships with private sector residential community development firms to obtain the financial and management expertise necessary to build, replace, maintain and repair, and operate Army family housing. By leveraging the expertise and resources of our development partners and by applying market-based incentives, we expect to dramatically improve the well-being of Army families.

"[Y]ou have to decide what is core to the United States Army. ...Then you take all the non-core activities, just like you would in the business world, ...and see if there is a value proposition ... that you can get from the private sector, so you can lay off the risks associated with non-core activities to the private sector."

Thomas E. White
Secretary of the Army

The Army competitively selects private sector partners that demonstrate the requisite skills and experience in real estate development and property management and that have the appropriate financial capability. The Army and its partners then negotiate a business plan for each specific RCI project, and set forth the terms of the developer's long-term relationship with the Army. The plan defines the scope of

development, management processes, financial structure, and time-line for improving residential communities. The partner assumes ownership of family housing units and is responsible for operating, managing, and renovating existing units and for constructing new and/or replacement units, using processes and standards agreed to by the Army. The partner's income on the project comes from rents paid by military personnel from their basic allowance for housing. A typical partnership agreement will be for a 50-year period.

The Army scoring/investment costs, when required, come from the Family Housing Improvement Fund (FHIF). The Army transfers funds to the FHIF from the Army Family Housing-Construction appropriation after Congress approves the business plan. The RCI program operations and implementation costs are paid from the Army Family Housing-Operations appropriation.

Four pilot projects will privatize more than 15,000 family housing units at Forts Carson, Hood, Lewis, and Meade. Forts Carson and Hood have transitioned to privatized operations, and agreements will be concluded at Forts Lewis and Meade in early 2002. The Army has initiated 23 additional projects, with 53,000 housing units to be privatized by 2002-2006.

Infrastructure Reduction and Replacement

The Army has excess infrastructure that is inadequate for mission requirements. It also has significant requirements for modern infrastructure to support a transforming force. Efforts to address this challenge include programs to eliminate excess infrastructure, to replace or refurbish infrastructure that no longer meets requirements, and to build infrastructure to meet new requirements. Eliminating excess infrastructure will reduce the burden of facilities maintenance and will support the provision of appropriate modern infrastructure to improve the capabilities of the objective force.

Base Realignment and Closure (BRAC) is the most powerful tool for reshaping and eliminating excess infrastructure. Having completed the actions authorized under the first four BRAC rounds, the Army is preparing to study and recommend additional actions with the BRAC authority authorized by Congress beginning in FY 2005. Since 1997, the annual recurring savings from BRAC have exceeded the cost of implementing authorized actions.

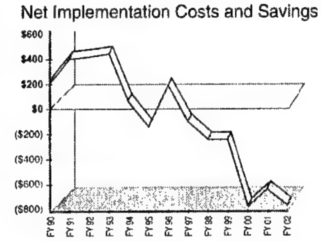
The Facilities Reduction Program (FRP) is another effective way to streamline

Figure 4: BRAC Costs and Savings

COSTS

ONE-TIME	(FY90-03)
BRAC 88	1,342
BRAC 91	1,369
BRAC 93	285
BRAC 95	2,364
	$5,360M

Net Implementation Costs and Savings



SAVINGS

FY90-03	
BRAC 88	721
BRAC 91	1,181
BRAC 93	207
BRAC 95	1,604
	$3,703M

ANNUAL RECURRING	
BRAC 88	260
BRAC 91	304
BRAC 93	68
BRAC 95	313
	$945M

Army infrastructure. FRP aims to improve the utilization of permanent facilities, consolidate operations into the best facilities, and dispose of the worst facilities. From 1992 to 1999, the Army disposed of approximately 49 million square feet (MSF) of excess infrastructure. FRP will eliminate an additional 13 MSF of excess infrastructure by the end of FY 2003. The savings achieved through both BRAC and FRP can help provide funds for other programs.

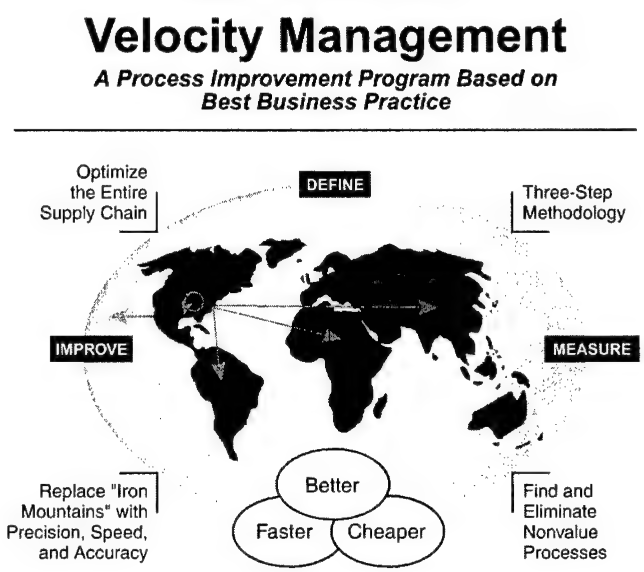
Transforming Logistics

We are transforming Army logistics from a system based predominantly on redundancy of mass to one based on velocity, mobility, and information. Our move to a Distribution-Based Logistics System (DBLS) is one of our most important initiatives, representing a fundamental change in our approach to logistics management. DBLS will comprise a set of reengineered processes, innovative policies, and advanced information systems. The result will be a seamless logistics system that relies on velocity and precision to link readiness management, distribution management, and asset management.

Velocity Management

Following a study of logistics management at Motorola and Caterpillar, the Army adopted a commercial business practice referred to as velocity management. This practice uses a three-step methodology to define an issue, measure performance, and improve the process used. Our goal is to improve the performance of our major logistics processes, such as repair and supply, in terms of speed, accuracy, and reliability. We also expect to reduce costs.

Figure 5: Velocity Management



Using velocity management, we are measuring our performance to identify problem nodes in the supply chain on which we can then focus our improvement efforts. Correcting these problems will enhance the efficiency of the supply chain and will enable us to supplant our reliance on supply mass with fast and accurate issue information and inventory levels. This will reduce costs and increase our mobility. Velocity management has over the past decade enabled us to reduce total inventory by more than 50 percent.

Improving Our Metrics

In the past, we measured the performance of the supply system in terms of Order Ship Time (OST). This measured the time between

when a Supply Support Activity initiated a demand to the time that the Supply Support Activity received the item requested. It did not account for how long the supply support activity took to process the customer's request or how long it took the supply support activity to deliver the item to the customer. Our new metric is Customer Wait Time (CWT), which measures the amount of time from the issuance of a customer order to the satisfaction of that order. We will ultimately achieve the ability to measure performance wait time at every node in the supply chain and to measure its impact on the repair cycle. By reducing CWT, we will improve readiness.

The Army is also undertaking an Equipment Downtime Analysis (EDA) to measure how the performance of each supply and maintenance node affects equipment readiness rates. EDA uses holistic analysis of the maintenance system and supply chain to uncover readiness issues. Ultimately, this too will allow us to focus our efforts to correct those areas causing the greatest impact on readiness. This will improve our ability to sustain readiness, while at the same time reducing total support costs.

Improved Policies: Dollar Cost Banding

The Army requires more than 1.4 million repair parts to support its equipment. Choosing the right mix to be stocked at each Supply Support Activity has a major impact on the cost of readiness and on our effort to increase mobility. In calculating which parts to stock, the Army historically used the same criteria whether the item cost $10 or $500,000. A study by the Rand Corporation revealed that the majority of parts that resulted in deadlined equipment cost less than $100. Under Dollar Cost Banding, the Supply Support Activity can increase the stockage of these less expensive deadlining parts while decreasing stockage of more expensive, non deadlining items, and can do so without affecting the total cost of repair parts inventory. In effect, the Army gets more readiness for the same cost.

The results thus far have been encouraging in terms of both support and mobility. The 1st Corps Support Command at Fort Bragg has experienced a 176 percent increase in the range of spare parts available; the 82nd Airborne Division at Fort Bragg has experienced an 11 percent reduction in required storage space; and the 3rd Infantry Division at Fort Stewart experienced a 13 percent increase in its order fill rate, thereby reducing customer wait time.

Web-Based Logistics

The Army envisions that the use of global Internet/intranet technology, and specifically the development of a single enterprise database, will make our logistics business processes more effective and efficient and will reduce process costs. Access to a unified

database could provide real-time logistics information to managers at all levels, thereby improving precision in the logistics support arena. Our long-range objective is to integrate sustainment providers and customers into a single system, through use of a common, enterprise-wide data model in the Global Combat Service Support-Army (GCSS-A) system and the Wholesale Logistics Modernization Program (WLMP).

Army Knowledge Management

Army Knowledge Management is a strategy to transform the Army into a network-centric, knowledge-based force. As such, it is an integral part of Army Transformation. AKM will improve decision dominance by warfighters in the battlespace and by business stewards in our organizations and practices.

AKM includes the Army Knowledge Online (AKO) initiative to provide a single point of access to Army data, information, and knowledge. We are moving from decentralized C4/IT investment management to an enterprise portfolio management focus, to centrally manage more than $5 billion in annual IT funding. This central focus began in 2001 and will improve each year as policies and governance mechanisms are refined to ensure program integration, implementation of best practices, provision of web-enabled business solutions, and improved IT infrastructure management.

We will provide all soldiers, civilians, and appropriate contractors with access to AKO and a single lifetime email address. By using the AKO portal, this audience of 1.2 million people will gain access to expanded educational opportunities, producing better educated, more competent soldiers and civilians. Accessing the global reach of the worldwide web will boost morale of our forward deployed forces, and permit capturing and sharing the knowledge of our aging work force. As newly web-enabled automated systems come on-line, commanders will be able to access current data on readiness, largely unreachable in conventional systems. The portal is integral to web-based logistics transformation, providing a single access point to logistics data for forward-deployed forces and enables access to CONUS resources and systems.

Business Initiatives Task Force Initiatives

Pooling Cell Phone Minutes

In many locations, each individual cell phone user is allocated his or her own block of minutes, even though most users do not use all their minutes. By pooling available minutes at the organization or installation level, we expect to lower costs and waste fewer unused minutes. This initiative has been tested at one Air Force installation, where the monthly savings approached $10,000. The savings that this initiative is expected to make represent funds that can be freed up for use on readiness of infrastructure support, at the discretion of the local commander.

Recovery Auditing
Recovery auditing is an initiative that addresses the issue of potential overpayments to contractors. It calls for civilian audit firms to be hired to audit contracts for possible overpayments. The auditing firm would be paid a percentage of all recovered overpayments. By recovering such overpayments we can reduce the cost of near-term readiness and of modernization; we can additionally apply the recovered funds to other programs.

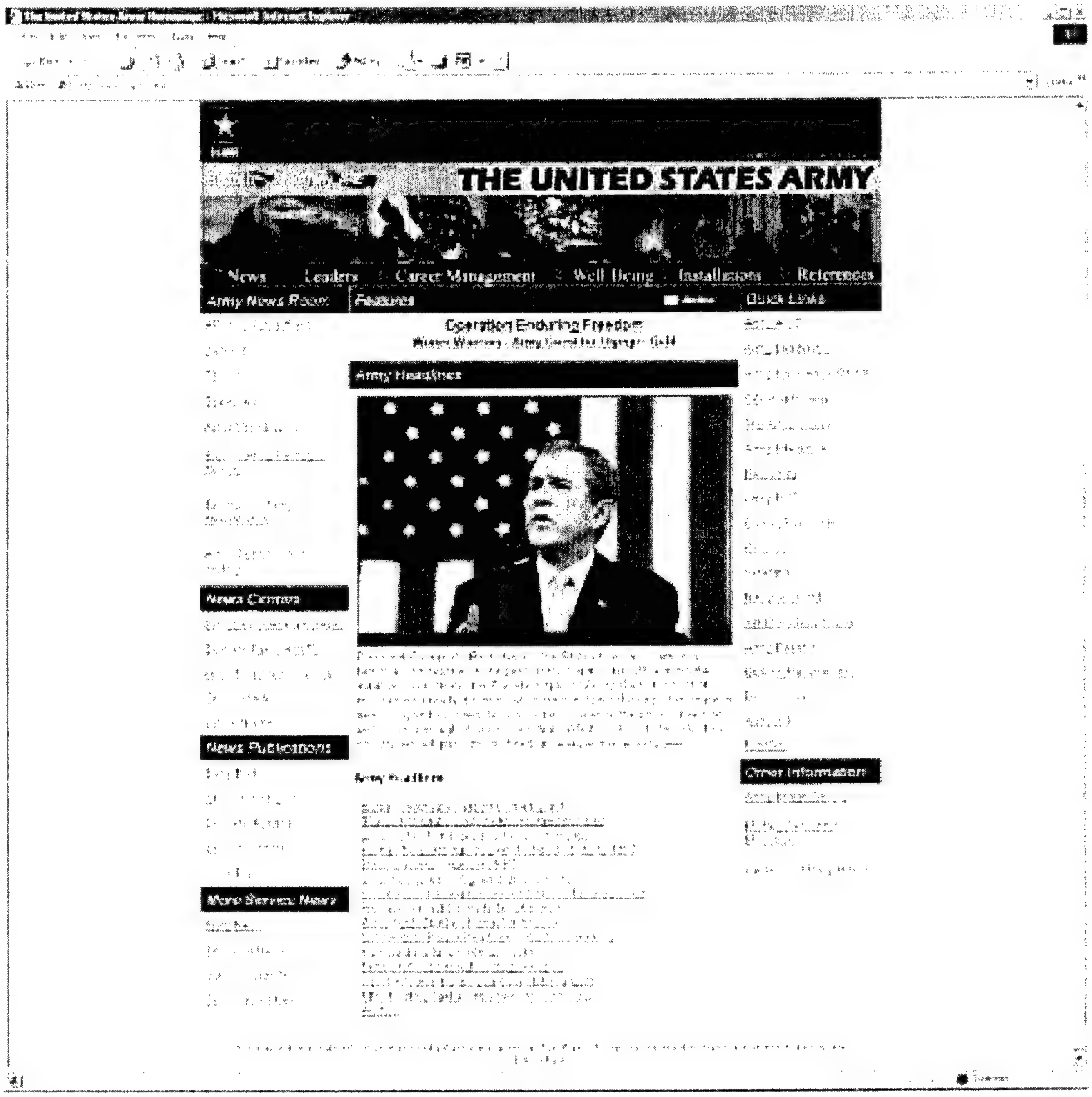
Web-Based Invoicing
This initiative addresses invoicing and payments associated with government contracts, calling for the conversion from a paper-based process to a web-enabled process. This would reduce processing time; provide for more timely payment, thus reducing penalties incurred by the government; and result in reduced operating costs from the Defense Finance and Accounting Service, which charges less for electronic transactions than for paper ones.

Modified Waiver Procedures for Hiring Military Personnel
Statutes impose a 180-day waiting period before the Department of Defense can hire retired military personnel. The waiting period can be waived, but DoD policy is that waivers must be approved at Major Command level. This proposal calls for a change in that policy to allow Service secretaries to delegate waiver authority as they see fit, probably to installation level. This would provide a more responsive system, able to hire qualified people who might otherwise go elsewhere because of the delays involved. (This proposal would not affect the legislative prohibition that addresses civilian positions established within the last two years.) This would enable us to bring in experienced and qualified leaders to fill the growing gap caused by civilian retirements.

Through these initiatives and many others, the Army is seeking to streamline the way it does business. By continuing to emphasize initiatives such as these, the Army can improve its business efficiency, freeing up resources that can be otherwise invested in people, readiness, and transformation.

Learn More About America's Army

http://www.army.mil



Working Capital Fund

"Transforming to Meet the Nation's Needs"

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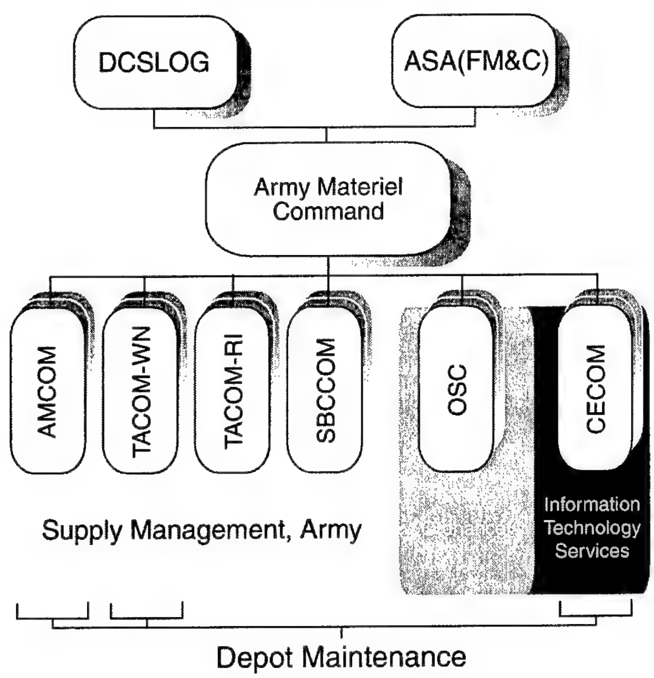
Working Capital Fund—Overview

The Army Working Capital Fund (AWCF) is an integral part of the Army team, providing essential support services to the operating forces of the U.S. Army. Since as early as 1870, the U.S. military has used working capital funds to procure and provide materiel and commercial goods and services to the operating force. Based upon a private sector business model, the use of working capital funds encourages business activities to function in a more efficient and cost-effective manner and provides the flexibility needed for the proper management of these activities as workload conditions change. The AWCF activity groups are indispensable in ensuring that the Army achieves its vision of being "persuasive in peace; invincible in war."

Organization

The AWCF is divided into four activity groups: Supply Management, Army; Depot Maintenance; Ordnance; and Information Services. These activity groups are assigned to the command and control of the Army Materiel Command (AMC), and are managed by one or more of its six major subordinate commands (Figure 6). The Army Materiel Command, in turn, reports activities to the Deputy Chief of Staff, Logistics (DCSLOG) and to the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA(FM&C)). In addition, a corporate board at the Department of Defense level maintains oversight of the DWCF functions. The Depot Maintenance Corporate Board at Army level, looks at internal Army policy and procedures for Depot Maintenance. The Army has an oversight group, the AWCF Requirements Review Group (ARRG) that reviews, evaluates, and makes recommendations on policies, procedures, workloading or related Army resource issues impacting AWCF activities and/or their customers.

Figure 6. AWCF Organizational Chart



Activity Groups and Their Functions

The four AWCF activity groups provide logistical, maintenance, munitions, and information services in support of Army readiness. A description of each of these activity groups follows.

Supply Management, Army

The Supply Management, Army (SMA) activity group purchases and maintains materiel stocks for sale to its customers, which are primarily Army organizations. The operational readiness of the Army, and in particular its warfighting units, is contingent upon the availability of this materiel. Any prolonged disruption of the work of SMA would diminish the ability of our forces to remain self-sustaining and deadly on the field of war.

The U.S. Army Communications–Electronics Command, supplies communication equipment to the field.

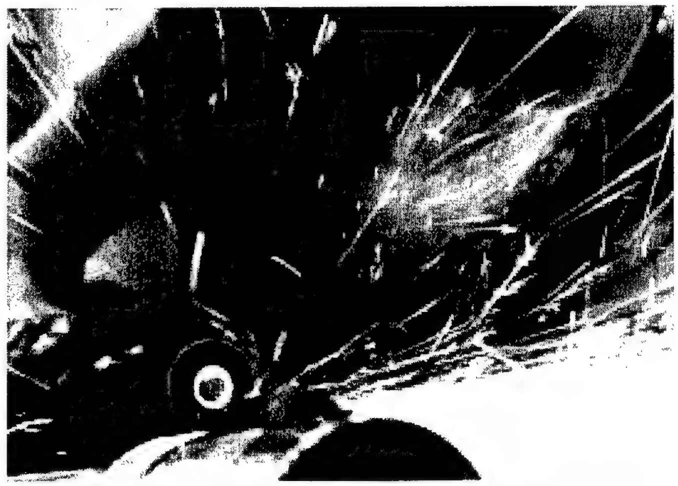
Implementation of the Single Stock Fund (SSF) initiative created dramatic organizational changes in FY 2001. Under SSF, this activity group now consists of a single wholesale division subdivided by commodity, with major subordinate commands under the U.S. Army Materiel Command managing assigned stocks (Table 1). SMA also manages critical war reserve stocks under Army control.

Table 1. Supply Management, Army Activities

Major Subordinate Command	Activity Performed
U.S. Army Aviation and Missile Command (AMCOM)	Manages inventories of aircraft and ground support items, as well as missile systems items
U.S. Army Communications–Electronics Command (CECOM)	Manages inventories of communications and electronics items
U.S. Army Tank and Automotive Command (TACOM) - Warren and Rock Island	*Warren* - Manages inventories of combat, automotive, and construction items *Rock Island* - Manages stocks of weapons, special weapons, and chemical and fire control items
U.S. Army Soldier and Biological Chemical Command (SBCCOM)	Manages ground support item stocks

Depot Maintenance

The Depot Maintenance activity group maintains, repairs, overhauls, and upgrades weapons systems, including both major end items and depot-level repairables. This activity group also stores and distributes war reserve material and other selected items, and provides support to other working capital fund initiatives.



Depot Maintenance employees are put to the test to repair and maintain the Army's equipment.

The Depot Maintenance activity group is critical to readiness. The industrial capability provided by this activity ensures that in times of crisis the Army has the ability to repair warfighting equipment quickly and either return it to use or hold it in reserve for future use. The activity group also partners with and competes with private industry to deliver goods and services at the best value to the force. Table 2 lists the five Army depots, their locations, the type of work performed by each, and the Major Subordinate Command of AMC with overall management responsibility for each.

Table 2. Depot Maintenance Activities

Major Subordinate Command	Location and Activity Performed
AMCOM	**Corpus Christi** Corpus Christi, TX - Maintains, repairs, and overhauls rotary-wing aircraft, engines, and components
AMCOM	**Letterkenny** Chambersburg, PA - Maintains, repairs, and overhauls tactical missile systems
TACOM	**Anniston** Anniston, AL - Maintains, repairs, and overhauls tracked combat vehicles; repairs self-propelled and towed artillery; repairs generator and rail equipment
TACOM	**Red River** Texarkana, TX - Maintains and repairs light armored vehicles and select missile systems
CECOM	**Tobyhanna** Tobyhanna, PA - Manufactures, maintains, tests, and fields communications-electronics systems and equipment; maintains and repairs missile guidance systems

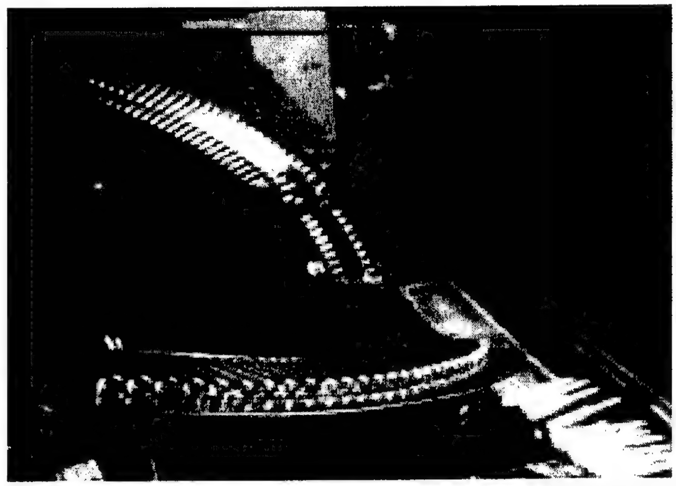
Ordnance

The Ordnance activity group is managed by the Operations Support Command (OSC) and the Soldier Biological and Chemical Command (SBCCOM). It provides DoD with an industrial capability to manufacture, renovate, and demilitarize materiel and to produce and maintain munitions, large-caliber weapons, and a full range of ammunition for the U.S. military and our allies. The

Table 3. Ordnance Activities

Pine Bluff Arsenal
Pine Bluff, AR - Primary materiel responsibilities include chemical, smoke, incendiary, illumination, and other pyrotechnic munitions agents and mixes; chemical defensive/protective items; test equipment; and other items, as assigned. Pine Bluff also provides base support to tenants
Rock Island Arsenal
Rock Island, IL - Primary materiel or industrial capabilities include weapons; artillery; armament for tanks, personnel, and cargo carriers; and tools and tool sets. The arsenal also provides base support to OSC, ACALA, DFAS (Defense Finance and Accounting Service), Defense Reutilization and Marketing Service (DRMS), and health clinics and smaller tenants
Watervliet Arsenal
Watervliet, NY - Primary materiel or industrial responsibilities include mortars, recoilless rifles, cannon for tanks and towed and self-propelled artillery, special tool sets, training devices, and simulators. The arsenal also provides base support to tenants
Crane Ammo Activity
Crane, IN - Produces and renovates conventional ammunition and related components; performs manufacturing, engineering, and product assurance to support production; receives stores; ships, demilitarizes, and disposes of conventional ammunition. Crane is a tenant on a Navy Base; the Letterkenny Munitions Center in Chambersburg, PA, is a cost center under Crane. Both centers store, maintain, and distribute conventional ammunition
McAlester Army Ammo Plant
McAlester, OK - Produces, renovates, demilitarizes, and stores ammunition and related components; loads, assembles, and packs conventional ammo, bombs, warheads, and rockets; and manufactures wood and metal pallets. The plant also provides base support to tenants. The Red River Munitions Center in Texarkana, TX, is a cost center under McAlester—both store, maintain, and distribute conventional ammunition
Blue Grass Army Depot
Richmond, KY - Stores, maintains, distributes, and demilitarizes conventional ammunition; maintains and repairs chemical defensive equipment. The Anniston Munitions Center in Anniston, AL, is a cost center under Blue Grass. Both centers store, maintain, and distribute conventional ammunition
Sierra Army Depot
Herlong, CA - Supports Operational Project Stocks; stores, maintains, distributes, and demilitarizes conventional ammunition
Tooele Army Depot
Tooele, UT - Stores, maintains, distributes, and demilitarizes conventional ammunition

Ordnance activity group operates three arsenals, two ammunition plants, and five ammunition storage depots and munitions centers. With the exception of Pine Bluff Arsenal, which is managed by SBCCOM at Aberdeen Proving Ground, MD, the Operations Support Command manages all other activities. Table 3 lists the names and locations of each of the Ordnance installations and the type of work they perform.



Through its vast array of manufacturing capabilities, the Ordnance activity group produces diverse ammunition systems.

Information Services

The primary mission of the Information Services activity group is to provide for the development and sustainment of automated information and communications systems. Managed by the U.S. Army Communications–Electronics Command (CECOM), the activity group provides a multitude of services, including requirements analysis and definition; system design, development testing, integration, and implementation support; and documentation of services. The group comprises four Central Design Activities (CDA) and the Army Small Computer Program (ASCP). ASCP provides customers with fully competed commercial sources of small and medium-size computers, software, networking infrastructure, and support services. Table 4 lists each of these installations, their location, and the type of work performed.

The Information Services group provides a multitude of support functions.

Table 4. Information Services Activities

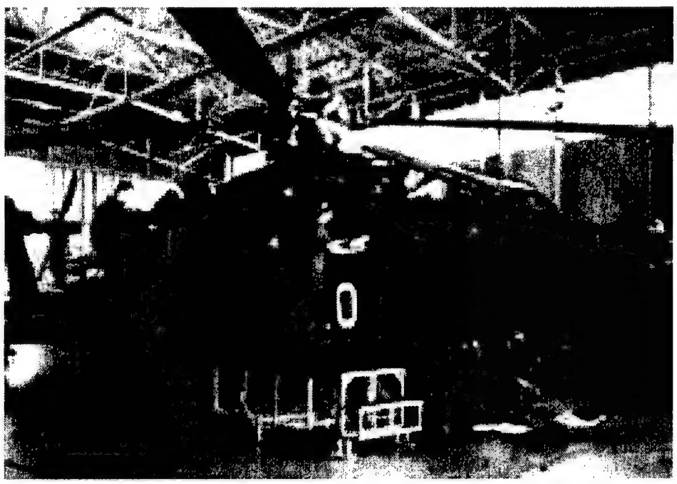
Industrial Logistics Systems Center
Chambersburg, PA - Wholesale logistics (Depot Maintenance/Financial Systems)
Logistics Systems Support Center
St. Louis, MO - Wholesale logistics (Supply/Financial Systems)
Software Development Center, Lee
Fort Lee, VA - Retail Logistics Systems
Software Development Center, Washington
Fort Meade, MD - Personnel/Retail Logistics Systems
Army Small Computer Program
Fort Monmouth, NJ - Provides commercial sources of automated data processing equipment and software

How the AWCF Operates

The Revolving Fund Concept

The Army Working Capital Fund is a revolving fund used to finance the continuous flow of goods and services to its customers. A revolving fund derives its name from the cyclical nature of its cash flows.

The budgetary authority for activities funded through the AWCF is derived from the fund's sale of goods and services to other business activities within the Army. The AWCF prices its goods and services to recover the full cost of providing the good or service. In theory, the AWCF should be structured to operate without losses or profits. In practice, it is extremely difficult to plan and execute operations so that the fund breaks even at year-end. Typically, the annual operating results at year-end yield either an operating loss or a profit. Prices are then adjusted for subsequent periods to offset either the gain or the loss, so that over the long-term, the AWCF operates on a full cost recovery basis. The activity groups use the revenue generated from transactions with their customers to pay wages, replace or purchase additional inventory, and cover other related operating expenses. Thus, the AWCF becomes a self-sustaining activity. The business-like practices of the AWCF encourage efficiency and discourage wasteful or unnecessary procurements by AWCF managers, as well as AWCF customers.


U.S. Army Aviation and Missle Command took control of the Corpus Christi Army Depot in FY 1999.

The AWCF Objective

The AWCF uses a private sector retail business model to provide products and services to its customers. The primary objective of using a working capital fund is to establish a customer-provider relationship between military activities and the AWCF activity groups that support them. Because the cost of goods and services consumed is ultimately borne by the customer, the customer is responsible for determining support requirements and with critically evaluating the cost and quality of goods and services that are provided by the activity groups. As such, the customer-provider relationship creates a linkage between the level of support required by military missions and the quality and quantity of the outputs provided by the activity groups.

By passing the cost of goods and services to the customer, the Working Capital Fund ties the funding of support activities to the needs of the military missions. The activity groups must therefore coordinate their inventory levels and labor requirements according

to the needs of their customers' military missions. In so doing, unnecessary inventory and nonessential labor can be reduced, which in turn reduces the costs passed on to the customer.

Source of Funding

Generally, activity groups within a revolving fund receive their initial funding through an appropriation or transfer of resources from existing appropriations of funds. These capital resources are then used to purchase the inventory needed to provide initial goods and services to customers. Financial resources to sustain continuing operations are generated from customer revenue throughout the fiscal year. The table below provides the revenue amounts of the AWCF's four activity groups over the past three years.

Table 5. AWCF Revenues by Fiscal Year

AWCF Revenues by Fiscal Year ($ millions)	FY 1999	FY 2000	FY 2001
Supply Management, Army	$9,648.3	$9,995.9	$6,068.9
Depot Maintenance	1,500.1	1,291.8	1,434.7
Ordnance	416.9	658.1	667.8
Information Services	121.5	134.5	97.8
Total Revenue	**$11,686.8**	**$12,080.3**	**$8,269.2**

Since the AWCF activity groups operate on a break-even basis over the long term, customer rates are established annually at a level that activity group management estimates will recover the cost of products or services provided. Once established, rates are stabilized (held constant) for the applicable fiscal year. This stabilized rate policy serves to protect the business activity's customers from unforeseen cost changes, and enables customers to plan and budget for goods and services provided by the AWCF activity groups without having to take into account the risk of a rate change degrading their purchasing power over the year. This policy also reduces fluctuations in planned workload levels and permits more effective use of the activity group's labor force. Gains or losses in operations that occur as a result of variations in program execution are generally reflected in adjustments to rates in subsequent fiscal years. Occasionally, however, realized losses may be funded by an appropriation, by a transfer from available resources in another DoD account, or by a quarterly rate increase.

Management Integrity

The fundamental stewardship responsibilities of AWCF management are to provide proper stewardship of federal resources and to ensure the provision of efficient, effective, and timely services. AWCF employees must ensure that all resources are used efficiently and effectively to achieve the maximum utilization of public resources consistent with agency missions, in compliance with laws and regulations, and with minimal potential for waste, fraud, and mismanagement.

The AWCF has a system of internal controls to assess its performance in meeting these responsibilities, and provides reasonable assurance to the adequacy of control. However, our auditors have uncovered weaknesses during previous audits of our financial statements. Recently corrected weaknesses, as well as weaknesses that continue to challenge us, are described in the following sections.

Continuing Challenges

Accounts Receivable

Inventory management personnel have the ability to access and change—without the knowledge or approval of the Defense Finance and Accounting Service (DFAS)—the accounts receivable data in the Commodity Command Standard System (CCSS), the automated system used to account for accounts receivable. While inventory management personnel need to have access to and the ability to change logistical data, the ability to change financial accounting information directly, however, allows for data manipulation and the production of unreliable financial data. Commodity Command Standard System (CCSS) is currently being replaced by a new system under the Wholesale Logistics Modernization Program contract. Per the contract specifications, the modernized system will be CFO-compliant. This will include adequate controls on changes to accounts receivable.

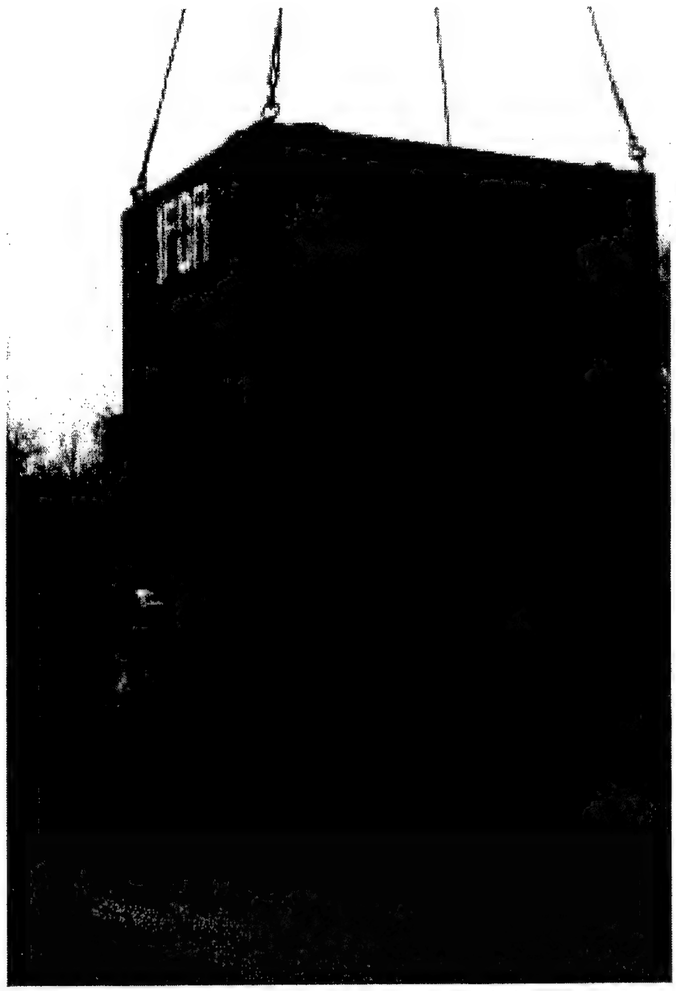
Inventory and Related Property, Net

Inadequate internal controls continue to affect the reliability of amounts reported for the Inventory and Related Property, Net account. Reconciliation is a key internal control to make sure transactions process to both the accounting and the logistical records. However, reconciliations of accounting records with logistical records were not conducted in FY 2001; instead, the accounting agency accepted the logistical records as accurate and adjusted the 30 September 2001 accounting records by about $3.9 billion to force records to agree.

In addition, complete physical inventories weren't conducted during FY 2001. Since inventory values are used in computing the

cost of goods sold for the Statement of Net Cost and are reported on the Balance Sheet, the lack of a complete inventory may contribute to material misstatements in inventory values. Complete physical inventories are a key internal control to make sure that inventory quantities and values are reliable.

The Army is taking steps to ensure that both the logistics and financial records are improved. As stated in the audit, problems within these processes have been documented in a remedial action plan, and the Army is moving forward to ensure that the Wholesale Logistics Modernization Program (WLMP) does not duplicate the problems. Additionally, an integrated process team is working to reconcile and cleanse the Commodity Command Standard System (CCSS) databases before it transitions to WLMP. This IPT effort is scheduled to begin in mid-October at the Communication and Electronics Command (CECOM).



Supplies being loaded onto rail-beds for transportation to Bosnia in support of the International Forces (IFOR).

Inventory In Transit

The Army continues to have inadequate controls over inventory items in transit. Inventory in transit could not be verified due to the lack of sufficient audit trails and computed balance issues. In addition, due-in records for shipments from contractors were not properly closed out in the Commodity Command Standard System. The primary problem affecting the accuracy of in transits is that Commodity Command personnel do not adequately research and correct contractor shipment notices that have been rejected by CCSS. As such, Commodity Command personnel are ultimately forced to resolve uncleared due-in records during the contract closeout process, or to process dummy receipt transactions manually to correct rejected contractor shipment notices.

Accounts Payable

Accounts payable transactions rejected in CCSS were not properly researched and corrected. Accounts payable balances were unreconciled. In addition, aged accounts payable-public balances were not verified, raising questions as to their accuracy

The Army and the Defenses Finance and Accounting Service have been working together to ensure that the accounts payable balance is accurate. The Army issued procedural guidance on January 5, 2001, to ensure that rejected accounts payable are researched and corrected.

Equity Transactions

Inadequate controls exist to ensure that equity transactions affecting the Statement of Changes in Net Position are properly supported. For example, supporting documentation for some transactions that were automatically generated by the CCSS could not be found. In addition, disclosure could not be provided as to why the transactions occurred, nor as to whether or not charges were made to the fund equity account.

The Army recognizes the limitations of the obsolete technology currently used in the Commodity Command Standard System. The Wholesale Logistics Modernization Program is a modern solution set designed to address this particular shortcoming as well as others based on the CCSS technology and business processes.

U.S. Standard General Ledger at the Transaction Level

The Office of Management and Budget requires federal agencies to implement the U.S. Standard General Ledger in their financial systems. Current guidance mandates that the general ledger be implemented at the transaction level. While federal agencies are permitted to supplement their application of the general ledger to meet agency-specific information requirements, the supplement must maintain consistency.

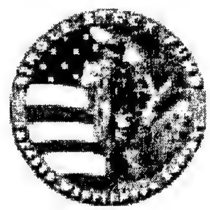
The Army acknowledges that its financial management systems have significant procedural and systemic deficiencies, and has included discussions of those deficiencies in previous annual assurance statements and in management representation letters.

The Army has contracted to have the Commodity Command Standard System and the Standard Depot System replaced under the Wholesale Logistics Modernization Program. The new system will include the U.S. Standard General Ledger required by the Office of Management and Budget.

Management Initiatives

Single Stock Fund

Described by the Chief of Staff, Army as a fundamental element of the Army's Revolution in Military Logistics, the Single Stock Fund is a Headquarters, Department of the Army business initiative designed to improve logistics and financial processes in the Army Working Capital Fund, Supply Management (AWCF-SMA) activity group. SSF represents one of the most revolutionary developments in the logistics arena of the past quarter century.



The Single Stock Fund merges existing wholesale and retail elements of the AWCF-SMA into a single, centrally managed fund, thereby streamlining current operations and eliminating inefficiencies such as multiple points of sale and credit, duplicate ledgers/billing accounts, and duplicative automated systems managing the same inventory.

The Vice Chief of Staff, Army approved the SSF Campaign Plan in November 1997. On 18 October 2000, the Army approved implementation of the first two stages, Milestones 1 and 2. This implementation, completed in April 2001, involved capitalization of 91,000 lines valued in excess of $489 million of secondary item inventory, comprising $451 million of former Retail Stock Fund items and $38 million of former Operations and Maintenance Army retention stocks, into the AWCF-SMA. In this process, 49 retail stock fund general ledgers were closed, with Army Working Capital Fund general ledger accounting now being performed by the Army Materiel Command. The tentative target date to begin implementing Milestone 3, which will extend SSF to the tactical supply support activities, is Jun 2002. Contingent upon successful execution of a field verification of the Milestone 3 functionality, we anticipate an Army leadership direction to implement Milestone 3 Army-wide in Oct 2002.

Wholesale Logistics Modernization Program

The business processes used for the working capital fund have not changed significantly in the last three decades. As a result, logistics processes have become outdated and costly to maintain. The Wholesale Logistics Modernization Program was thus devised to improve the agility, reliability, and responsiveness of the AWCF activities.

Through adoption of private sector supply chain and financial management best practices, WLMP will improve force readiness and mission performance, take advantage of efficiencies in systems operations, improve system maintainability and adaptability, and provide full asset visibility through the integration of logistics and financial data, giving the AWCF an integrated cost accounting system. Through the DFAS Corporate Information Infrastructure (DCII) environment, WLMP additionally will interface with DoD-wide USSGL data to improve accounting and finance reporting for AMC at the AMC, Army, and DoD levels of interest. This is just one illustration of how the Army is progressing toward the use of transaction-driven, USSGL-based accounting systems.

When fully implemented, WLMP will provide a single point of entry for the recording, reporting, and analysis of inventory and related financial data, directly addressing an identified internal control weakness cited in the Army's FY 2000 financial statements. The modernization program will provide a financial information management system while simultaneously providing the logistics community with easy access to online, real-time information at a detail level low enough to enable data to be summarized and sorted. Managers will be able to use these data to perform such functions as Activity-Based Costing and bringing financial data for the AWCF under general ledger control.

Army Workload and Performance System

At the core of any successful organization are its people. The Army Workload and Performance System is a human resources tool designed to analyze workload and to ensure the efficient allocation of resources across the AWCF. Composed of three modules (Performance Measurement, Workforce, and Workload), AWPS has the ability to store information on the skills available within the resource pool and on attrition, labor expenditures, performance data, and work schedules. The system allows managers to use these data to compare actual performance and cost against a planned level, to develop workload forecasts, and to match workforce levels with workload. In addition, AWPS allows managers to create potential future scenarios within the system, allowing users to observe the effects of changes such as Base Realignment and Closure actions or workload increases.

AWPS
Army Workload & Performance System

As a result of having implemented AWPS, the Army is better able to estimate and schedule workflow, to monitor performance against projected levels, to control the overhead associated with the products and services provided by the AWCF, and, most

important, to improve responsiveness to customer requests. By taking advantage of the efficiencies inherent in a workload-based system, AWPS contributes to the provision of agile, more responsive support for the warfighter.

Civil Works Fund

"Transforming to Meet the Nation's Needs"

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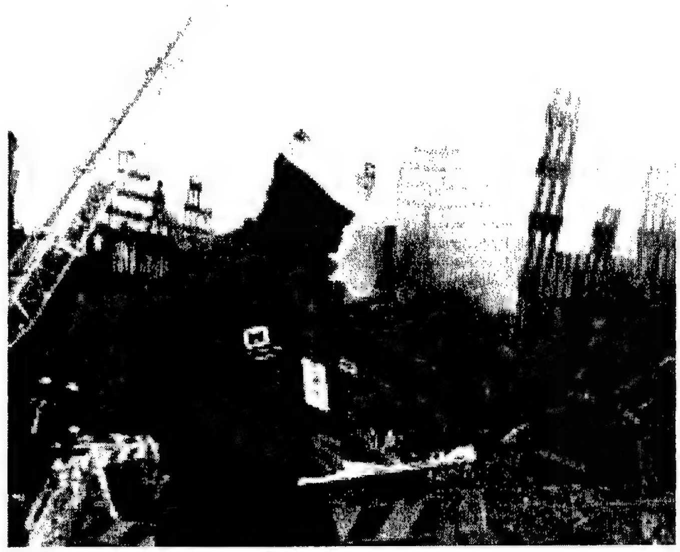
Civil Works Fund—Overview

The U.S. Army Corps of Engineers has served our nation, through peace and war, for more than 200 years. The Corps traces its origins to the construction of the fortifications at Bunker Hill in 1775, service in the Revolutionary War, and then peacetime service opening the Western frontier. Over time our military and civil missions have evolved and continue to evolve to meet the needs of the nation. Today the civil mission includes development and management of navigation, flood and coastal shore damage reduction, environmental protection and restoration, hydroelectric power, recreation, water supply and emergency management programs.



Bob Chapman of the Corps of Engineers Fort Worth District works at "Ground Zero." Personnel of the U.S. Army Corps of Engineers were at Ground Zero just two hours after the hijacked airliners struck the World Trade Center.

Throughout its history, the Civil Works Program has depended on the expertise of its people to evaluate, facilitate, advise, develop, operate, and manage civil works projects. At all times we seek to deliver the best possible return on taxpayer investments. With approximately 25,000 employees performing civil works duties, we are the engineer team of choice for public engineering.

Mission and Organization

Mission

The Civil Works mission is constantly evolving to answer the changing needs of the nation.

Developing and Managing Water Resources

Our original civil mission related to developing and managing water resources was to support navigation by maintaining and improving water channels. In 1824, a series of laws authorized the Corps of Engineers also to improve safety on the Ohio and Mississippi Rivers, and in 1917 the Flood Control Act established our role in flood damage reduction. The Rivers and Harbors Act of 1909 authorized the consideration of various water uses including hydroelectric

The Civil Works Mission

The Civil Works mission is to contribute to the national welfare and serve the public by providing the nation with quality and responsive

- development and management of the nation's water resources
- protection, restoration, and management of the environment
- disaster response and recovery
- engineering and technical services in an environmentally sustainable, economically and technically sound manner through partnerships and the project management business process.

power generation in the planning, designing, and construction of water resource development projects. The passage of the Flood Control Act of 1936 gave the Civil Works Program the responsibility for providing flood protection for the entire country.


A park ranger emphasizes safety at the John Day Dam, Oregon.

Recreation was added to the Civil Works portfolio by the Flood Control Act of 1944, which authorized the provision of recreational facilities at reservoirs. The River and Harbor Flood Control Act expanded this authority in 1962, providing authority to build, where feasible, recreational facilities as part of all water resource development projects.

Another aspect of water resources management is that of water supply. The changing role of the Civil Works Program in water supply has been directed by a series of Water Resources Development Acts. The Water Supply Act of 1958 gave Civil Works the authority to include water storage in both new and existing reservoir projects for municipal and industrial uses at 100 percent non federal cost.

Protecting, Restoring, and Managing the Environment

Our role in environmental protection was first outlined by the Rivers and Harbors Act of 1899, which required Civil Works to prevent the obstruction of navigable waterways. As concerns over the environment grew in the late 20th century, the Clean Water Act of 1972 greatly broadened this responsibility by providing authority over dredging and filling in "the waters of the United States," including the filling in or destruction of wetlands. Our environmental responsibilities were further broadened by new legislation, introduced in 1986, that expanded our traditional environmental mitigation activities at new and existing projects to include the enhancement and restoration of natural resources at our projects and in areas not directly tied to our projects. This new legislation made providing environmental protection one of the primary missions of our water resource development activities.

Responding and Assisting in Disaster Relief

Throughout its history, America has relied upon the Civil Works Program to respond to its needs in times of national disaster. Such response is now provided under two basic authorities: the Flood Control and Coastal Emergency Act (P.L. 84-99, as amended), and the Stafford Disaster and Emergency Assistance Act (P.L. 93-288, as amended). Under P.L. 84-99, we have direct authority to provide emergency assistance during or following flooding events to

protect lives, public facilities and infrastructure. Under the Stafford Act, the Civil Works Program supports the Federal Emergency Management Agency in carrying out the Federal Response Plan, which calls upon 26 federal departments and agencies to provide coordinated disaster relief and recovery operations. Our primary responsibility for emergency relief and recovery operations is to provide public works and engineering support.

Fighting the flood in Fort Wayne, Indiana.

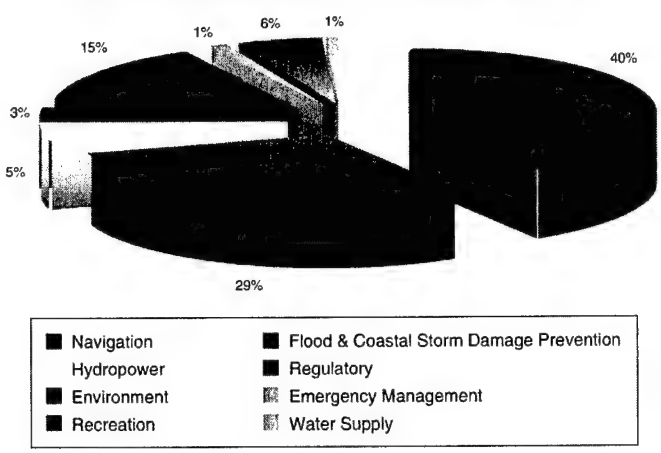
Providing Engineering Support and Technical Services

In Title 10 of the U.S. Code, The Armed Forces, Congress expresses its intent that the Civil Works Program provide services to other federal entities, states, or local governments on a reimbursable basis. This is further outlined in Title 33, Navigation and Navigable Waterways. The Civil Works Program is authorized to perform work on flood control, the improvement of rivers and harbors, research, and in support of private engineering and construction firms competing for or performing work outside the United States. The Civil Works Program must be reimbursed for all such work and it must determine that such work is in America's best interests.

The Business Programs' Support of the Mission

The Civil Works Program has established nine business programs to accomplish the four components of its mission. Each business program specifically addresses a single mission component, but all also contribute to one or more of the other mission components. The relative size of each business program is shown in figure 7.

Figure 7. FY 2001 Appropriations for Business Programs[1]



[1]The Support for Others Business Program is not depicted because it is not funded with appropriated funds.

Developing and Managing Water Resources

Five of the nine business programs address the development and management of water resources.

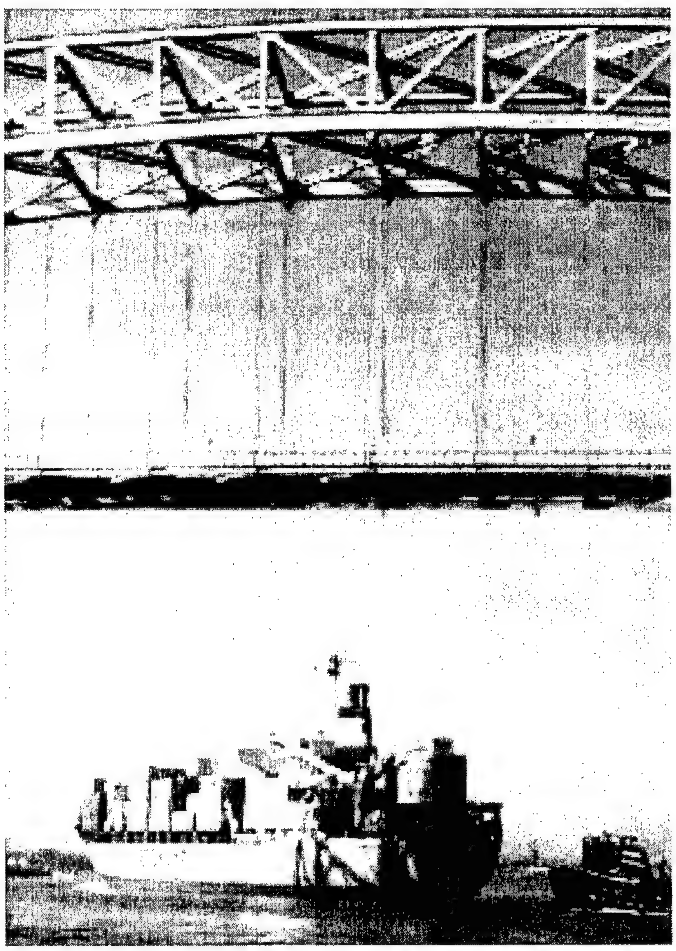
Mission: Development and Management of the Nation's Water Resources

Business Programs

- Navigation
- Flood and Coastal Storm Damage Reduction
- Hydropower
- Water Supply
- Recreation

Navigation

The Navigation business program is responsible for providing safe, reliable, and efficient waterborne transportation systems for the movement of commercial goods, for national security needs, and for recreation. The program seeks to meet this responsibility through a combination of capital improvements and the operation and maintenance of existing infrastructure projects. The Navigation program is vital to the nation's economic prosperity: 98 percent of America's international trade moves through our ports, and 20 percent of American jobs depend to some extent on the commerce that moves through these ports.



A container vessel navigates the Kill Van Kull channel as it passes under the Bayonne Bridge, New Jersey. The Corps has deepened this channel to accommodate modern shipping vessels.

The Civil Works Program operates and maintains 12,000 miles of inland waterways, 235 locks, and 300 commercial harbors. Inland waterways provide a highly fuel-efficient mode of transportation, able to move more than 500 ton-miles per gallon of fuel compared to the fewer than 400 ton-miles per gallon that rail transportation achieves. This translates to an annual saving of $7 billion in transportation costs. Every dollar invested in improving our navigation infrastructure results in a better than $3 increase in GDP.

In FY 2001, this $1.9 billion program accounted for 40 percent of the Civil Works budget.

Flood and Coastal Storm Damage Reduction

This business program is aimed at saving lives and reducing the property damage caused by floods and storms. The Civil Works Program provides 8,500 miles of emplaced levees and dikes, 383 reservoirs, and more than 90 shore protection projects along 240 miles of the nation's 2,700 miles of shoreline. With the exception of the reservoirs, most of the infrastructure that we construct under this business program is owned and operated by the sponsoring cities, towns, and agricultural districts.

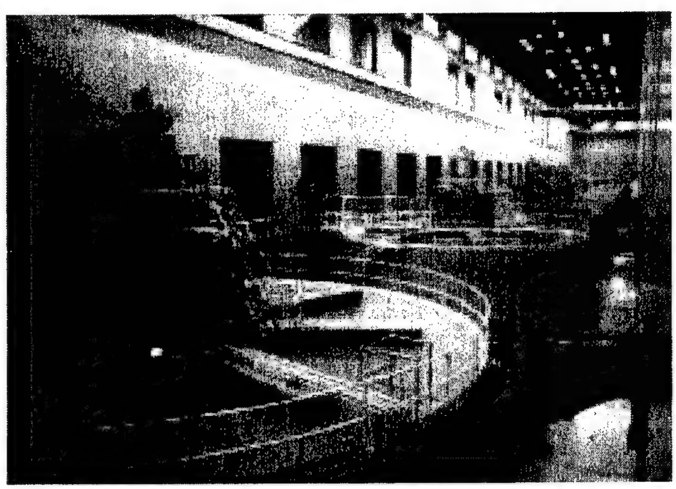
The Flood and Coastal Storm Damage Reduction business program has compiled an impressive record of performance. In 1991-2000, the United States averaged $4.5 billion in property damage from floods each year in unprotected areas. In contrast, Corps projects prevented $20.8 billion in average annual damages over the same time period in protected areas. Through FY 2000, the nation had invested $43.6 billion ($122 billion, adjusted for inflation) in flood damage reduction projects, and has successfully prevented an estimated $419 billion ($709 billion, adjusted for inflation) in flood damage. Adjusted for inflation, these figures show a return on investment of more than $6 in damage prevented for each dollar spent.


A Corps-led sandbag operation in Portland, Oregon.

In FY 2001, this $1.4 billion program accounted for 29 percent of the Civil Works budget.

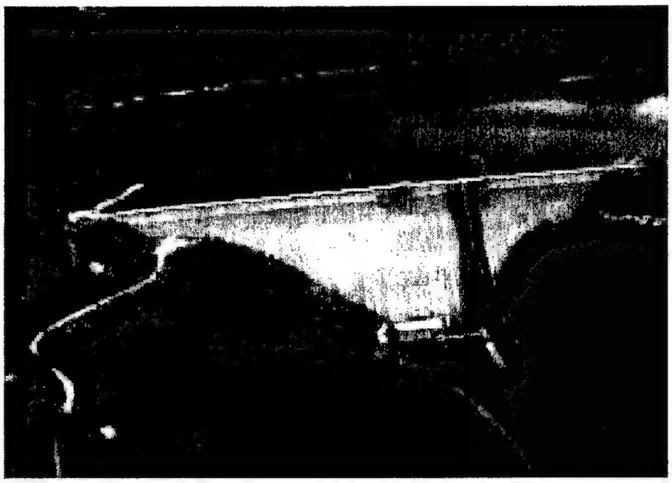
Hydropower

Some of the Civil Works projects built for navigation and flood control have the additional benefit of providing hydroelectric power. This is in keeping with Civil Works policy and with the congressional direction to maximize public benefits in all projects for all desirable purposes, including power generation. The Civil Works Program operates and maintains 75 power plants, mostly in the Pacific Northwest, generating about 24 percent of America's hydroelectric power. The program is the country's largest producer of hydroelectricity. Hydropower is a low-cost, renewable power source that produces none of the airborne emissions that contribute to acid rain or the greenhouse effect, leading many to view it as the least environmentally disruptive source of electric power.


Turbines inside the Bonneville Dam powerhouse, Oregon.

In FY 2001, this $215 million program accounted for 5 percent of the Civil Works budget. In FY 2000, the Federal Power Marketing Agencies returned $444 million to the U.S. Treasury from power sales (FY 2001 figures were not available at the time of printing).

Water Supply
The Civil Works Program has 167 projects with municipal and industrial water supply as an authorized purpose. We supply water to 10 million people in 115 cities, including some of America's largest metropolitan areas, such as Washington, D.C. Atlanta, and Dallas-Fort Worth. In arid parts of the country, we have 62 projects that have irrigation as an authorized purpose. Many of these projects serve flood control, navigation, and hydroelectric as well as irrigation purposes.


Arial view of the Dworshak Dam on the North Fork of the Clearwater River in northern Idaho.

In FY 2001, this $35 million business program accounted for 0.7 percent of the Civil Works budget. Although it has a relatively small budget, the value of the water that the program holds is significant. Approximately 6.3 million acre feet of storage are under contract for municipal and industrial purposes and is valued at about $1 billion over the 50-year life of the water supply contracts.


Rafting at Lost Creek Dam.

Recreation
Operating more than 4,000 sites at 456 water resource projects in 43 states, the Recreation business program is one of the primary points of contact between the Civil Works Program and the American people. The program delivers an excellent return on investment, in financial terms as well as in terms of the recreation facilities it provides. It supports 500,000 full-time or part-time jobs and generates annual visitor recreation-related spending of $15 billion.

In FY 2001, this $262 million program accounted for 6 percent of the Civil Works budget.

Protecting, Restoring, and Managing the Environment
Our business programs all address environmental issues, but two are focused specifically on our mission to protect, restore, and manage the environment.

Environmental Protection, Restoration, and Management
This evolving and growing business program emphasizes environmental stewardship, ecosystem restoration, mitigation, environmental compliance, and research and development. Responding to the growing national demand for restoration and protection, the program's work takes many forms, ranging from monitoring water quality at dam sites to operating fish hatcheries with the states to restoring the environment at the sites of earlier projects. Since 1998, we have added more than 120,000 acres of aquatic, wetland, and floodplain ecosystems to America's natural habitats.

Mission: Protection, Restoration, and Management of the Environment

Business Programs

- Environmental Protection, Restoration, and Management
- Regulate the Work of Others

Formerly Utilized Sites Remedial Action Program. Groundwater sampling for radioactive materials, Wayne, New Jersey.

In 1997, the Civil Works Program took over from the Department of Energy the Formerly Utilized Sites Remedial Action Program, which mandates the clean up of former Manhattan Project and Atomic Energy Commission sites. The transfer of this program to Civil Works capitalizes on our experience gained in cleaning up former military sites and hazardous waste sites under the Environmental Protection Agency's "Superfund" program. Work under the program is ongoing at 46 locations in Missouri, Illinois, Ohio, Maryland, New Jersey, New York, Connecticut, Pennsylvania, and Massachusetts.

In FY 2001, this $684 million program accounted for 15 percent of the Civil Works budget.

Regulate Dredging and Filling in the Waters of the United States
This business program seeks to use a permit process to protect the aquatic environment. The approximately 1,100 Civil Works staff who are engaged in this program have seen a 50 percent increase in permit actions since 1994, but despite this have continued to exceed the goal of processing 85 percent of permit requests within 60 days.

In FY 2001, this $129 million program accounted for 3 percent of the Civil Works budget.

Responding and Assisting in Disaster Relief

The Civil Works mission to respond to disasters and assist in disaster recovery is accomplished through the Emergency Management business program.

Mission: Disaster Response and Recovery

Business Program

- Emergency Management

Emergency Management

In a typical year there are 30 presidential disaster declarations demanding a response from the Civil Works Program. It is often difficult to know more than a few days in advance when a hurricane or other natural disaster will strike, and in the case of a man made disaster, like the events of September 11, 2001, there may be no notice at all. We have implemented "Readiness 2000," a unified and integrated corporate planning project, to raise our responsiveness to the highest possible levels. While predicting impending disasters can be difficult, the returns on investment in emergency preparedness can nonetheless be dramatic.

Staten Island, New York, October 16, 2001. David Leach of the Army Corps of Engineers explains to Ted Monette, FEMA federal coordinating officer, the process for handling debris being removed from Ground Zero to the landfill. By mid-October 2001, approximately 10 ton of debris were being processed daily for evidence related to the attack. (Photo by Andrea Booher/FEMA News photo)

In FY 2001, the Corps of Engineers responded to an ice storm, a tropical storm, floods, an earthquake, and terrorist attacks. The Corps provided emergency power and drinking water after the Oklahoma ice storms and technical assistance after the Nisqually earthquake in Washington State. When the Mississippi began flooding crops and homes, seven districts fought the flood by building emergency levees, raising or strengthening others, and providing 5 million sandbags.

Following the terrorist attack on the World Trade Center in New York, the Corps supported urban search and rescue efforts, conducted structural assessments, installed generators to help restore power to the city's financial district, performed emergency dredging operations, and managed landfill operations to facilitate recovery activities and evidence gathering. We also provided technical assistance for debris removal operations and provided Deployable Tactical Operation Systems to the city for use as Command and Control centers at the site of the attack.

In FY 2001, this $58 million program accounted for 1 percent of the Civil Works budget. In addition, our reimbursable work performed for FEMA amounted to $44 million. It should be noted that the incurrence of disaster response and recovery expenditures related to the events of September 11th and our response will be most evident in the FY 2002 financial statements.

Providing Engineering Support and Technical Services

The Civil Works mission of providing engineering support and technical services is largely accomplished through our Support for Others business program.

Mission: Engineering and Technical Services
Business Program
- Support for Others

Support for Others

The focus of this business program is to provide support primarily for government agencies. The program acknowledges that the primary source of support for state and local governments is private firms. The Support for Others program provides for the in-house engineering needs of government programs through planning, design, and construction support; technical oversight; and contract management

The Support for Others business program allows for centralized management of all reimbursable work performed within the United States or abroad. By assisting the performance of the private firms that conduct the majority of the work undertaken in support of government projects, our staff can gain valuable technical and project management experience, thereby strengthening our ability to perform Civil Works missions.

The Support for Others program is funded on a reimbursable basis, receiving no appropriated funds. In FY 2001, funding amounted to $740 million, in support of more than 60 government agencies in South America, Eastern Europe, Asia, and the Pacific.

Sources of Funds

Funding for the Civil Works Program comes from a number of sources. The primary source of funding is the Energy and Water Development Appropriations Act. Additional funds come from cash contributions from nonfederal project sponsors and from reimbursable agreements to provide support for others. The Inland Waterway Trust Fund and the Harbor Maintenance Trust Fund also generate funding. Table 6 summarizes FY 2001 appropriations.

Table 6. FY 2001 Business Program Appropriations
(Dollars in Millions) (May not add due to rounding)

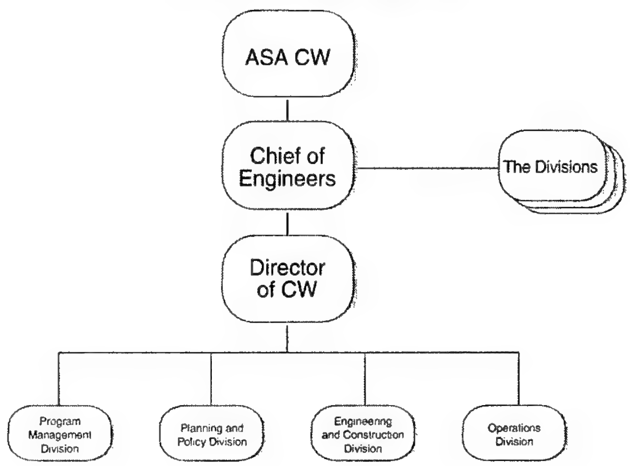
	Busines Programs									
Fund Source	Navigation	Flood & Coastal Storm Damage Prevention	Hydropower	Regulatory	Environment	Emergency Management	Recreation	Water Supply	Support for Others	Total
General Investigation	$40	$60	$1		$45	$2	$5	$7		$160
General Construction	572	690	58		390		8			1,718
O&M	1,223	290	149		77	4	240			1,983
Regulatory Program				$125						125
Flood Control, Mississippi River & Tribs	37	285			10			27		359
Flood Control & Coastal Emergencies						50				50
FUSRAP					140					140
General Expenses	62	44	7	4	22	2	9	1		151
Appropriations	**$1,934**	**$1,370**	**$215**	**$129**	**$684**	**$58**	**$262**	**$35**	**$0**	**$4,687**

Organization

How the Organization Supports the Mission

The Civil Works Program comes under the direct authority of the Assistant Secretary of the Army for Civil Works (ASA (CW)), who has the principal responsibility for the functions of the Department of the Army relating to all aspects of the Civil Works Program. Appointed by the President and confirmed by the Senate, the ASA (CW) is charged with developing, defending, and executing the Civil Works legislative and financial program and budget. The current ASA (CW) is the Honorable Mike Parker, who assumed his duties in October 2001.

Figure 7. Civil Works Organization

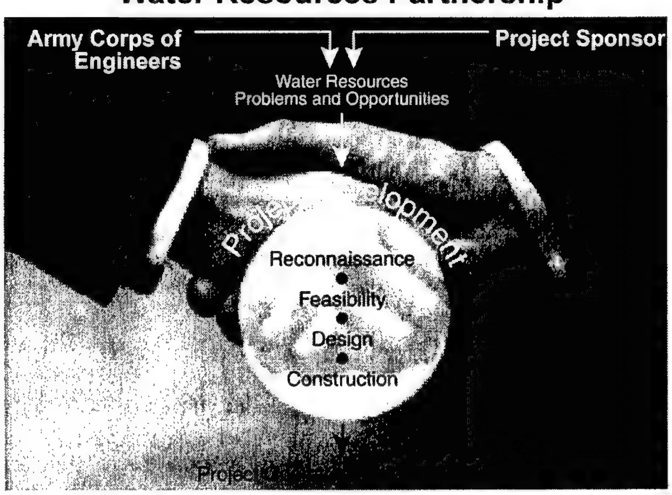


The Chief of Engineers is also the Commander of the U.S. Army Corps of Engineers, which executes the Civil Works Program. The Chief of Engineers defines policy as promulgated by the ASA (CW), and directs the Civil Works Program according to that policy. Lieutenant General Robert B. Flowers has been serving as the 50th Chief of Engineers since October 2000.

The Chief of Engineers relies upon the Director of Civil Works to execute the Civil Works Program on a day-to-day basis. Directing four divisions—Program Management, Planning and Policy, Engineering and Construction, and Operations and Maintenance (O&M)—the Director of Civil Works provides the policy and oversight to enable the Corps' major subordinate commanders and district commanders to successfully carry out or conduct the five phases of a Civil Works Project.

Figure 8: Project Development Process

Water Resources Partnership



The Five Phases of a Civil Works Project

Reconnaissance. The Planning and Policy Division provides the policy that governs the Reconnaissance Phase. During this phase, the project development team identifies problems and potential solutions, or define projects to address specific public needs. While all projects have a reconnaissance phase in which the initial definition of the follow-on work is developed, only 16 percent of reconnaissance studies result in actual construction.

Feasibility. Once the initial definition of the follow-on work has been developed, projects enter the Feasibility Phase. Again, the Planning and Policy Division provides policy guidance for the conduct of feasibility reports. In this phase, the project development team seeks to formulate a solution based on the initial findings disclosed in the Reconnaissance Report, evaluating potential solutions compared to costs and benefits, preparing initial designs, and recommending a plan to solve the problem at issue. The phase concludes with a decision on the product to be designed and constructed.

Preconstruction Engineering and Design. Once the studies are completed and a feasible product has been decided upon, the project enters the Preconstruction Engineering and Design Phase. The Engineering and Construction Division provides guidance for accomplishing design and construction. In this phase, the project development team finalizes the project's design, prepare plans and specifications, and prepare the construction contract for advertising.


Workers place roller-compacted concrete beneath the Table Rock Auxillary Gated Spillway in late January 2001. Approximately 7,000 cubic yards were placed over a period of seven days.

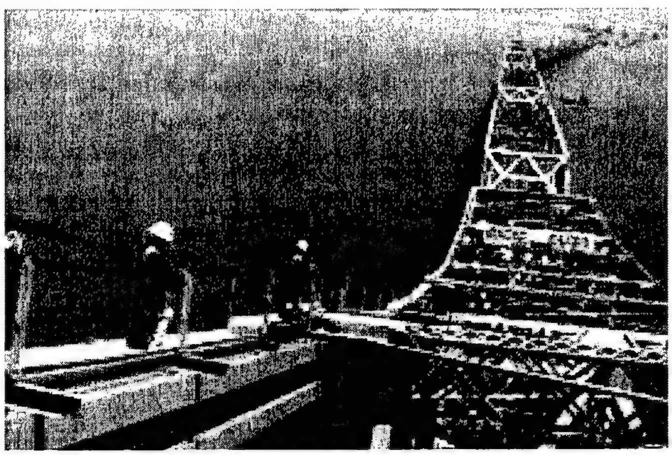
Construction. The Engineering and Construction Division also provides guidance for the Construction Phase. During this phase, engineers complete a Design Document, continue preparing plans and specifications as needed, and prepare engineering instructions for field personnel. In addition to preparing a variety of reports related to the site, the project development team also reviews contractor proposals, review contractor claims and modifications, and develops operations and training manuals and emergency action plans.

Operations and Maintenance. The final phase is Operations and Maintenance. In this phase, the Operations Division handles the operation and maintenance of those projects that remain a responsibility of the Federal Government. Nonfederal sponsors are responsible for operation and maintenance of most projects constructed since 1986. The Operations Division ensures that projects are inspected periodically, reviews any project modifications, and recommends needed repairs.

Despite the complexities of the projects we undertake, the Civil Works Program prides itself on its efficiency. In FY 2001, general expenses consumed only 3 percent of our budget. The overwhelming portion of our budget, and of our organization as a whole, was devoted to delivering important projects and service to the nation.

Performance Goals

The Civil Works Program has developed a draft strategic plan to focus on identifying and answering the nation's water resources needs, which directly impact our national prosperity, competitiveness, quality of life, and environmental stability. Research findings and input from the public, gained through public listening sessions, have led us to identify the following five issues as the main national water resource challenges facing the nation:


The Corps review team takes a dramatic trek on the San Francisco-Oakland Bay Bridge to get a first-hand look at its construction as part of its recent safety assessment.

- Balancing demands for water resources development in terms of access to and use of those resources and the preservation of environmental quality
- Repairing damage to our environment from past development
- Addressing the performance and safety implications of an aging water resource infrastructure
- Ensuring the capability to respond to natural disasters
- Minimizing the impact of institutional inhibitors on water resource decision making and management.

To address these challenges, we have developed the following five strategic goals (specific objectives associated with each goal enable the measurement of our annual performance toward achievement of the strategic goal):

- Provide sustainable water resources development and management
- Protect, restore, and manage environmental resources
- Provide justified levels of project services of high quality to the satisfaction of customers and project sponsors
- Reduce annual losses resulting from natural and man made disasters
- Be a world-class technical leader.

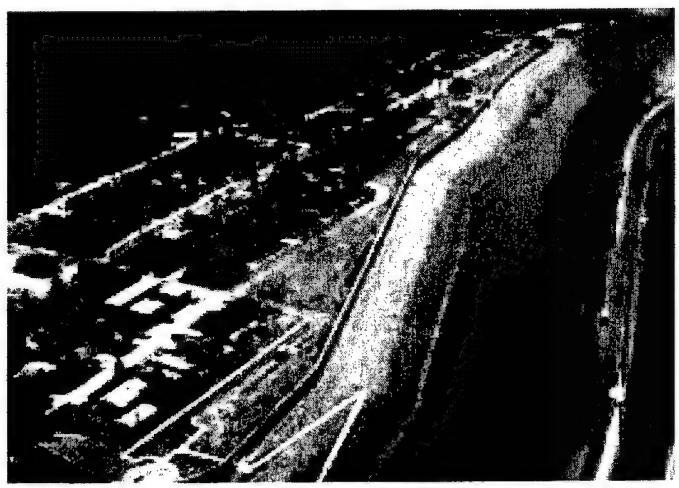
We have developed four overarching strategies specifically to outline how we intend to pursue the five strategic goals listed above. These strategies are reflected, to the extent necessary, in the objectives that support each strategic goal:

- Anticipate water resources needs
- Adopt integrated approaches
- Proactively position policies, people, and processes
- Communicate, coordinate, collaborate, and educate.

Strategic Goals

Strategic Goal 1: Provide Sustainable Water Resources, Development, and Management

By anticipating, identifying, and addressing water resource infrastructure problems and needs, the Army Corps of Engineers Civil Works Program is able to enhance our nation's economic well-being. By maintaining our coastal harbors and intercoastal waterways, we strengthen America's ability to export its products to the world and to move those products around the nation.



Aerial view of South Williamson, Kentucky. The project consists of floodplain evacuation, resettlement, and floodproofing activities.

To ensure that we continue to manage our water resources effectively and to maintain our waterway infrastructure, the Civil Works Program applies a consistent program investment objective to the development and management of water resources infrastructure. At the core of this objective are two guiding principles:

- Invest in the navigation program infrastructure when project benefits exceed their costs
- Invest in the flood and coastal storm damage reduction program infrastructure when project benefits exceed their costs.

Performance Measure 1: For investments in navigation projects, the benefit-to-cost ratio at the completion of project construction should at least equal the benefit-to-cost ratio at the time of initial project funding. The performance target for FY 2001 was to achieve a benefit-to-cost ratio at completion within 10 percent of the initial benefit-to-cost ratio.

Performance Result 1: In FY 2001, three navigation construction projects were completed. Two of the three projects were completed with a benefit-to-cost ratio within 10 percent of the estimate used to justify initial project construction funding. One project was completed with a benefit-to-cost ratio more than 10 percent lower than the initial benefit-to-cost ratio; but the completion benefit-to-

cost ratio still was greater than unity, which is used to indicate a justified investment.

Performance Measure 2: For investments in flood and coastal storm damage reduction projects, the benefit-to-cost ratio at the completion of project construction should at least equal the estimated benefit-to-cost ratio at the time of initial project funding.

Performance Result 2: In FY 2001, eight flood damage reduction projects were completed. Six of the eight projects were completed with a benefit-to-cost ratio within 10 percent of the estimate used to justify initial project construction funding. Five of those six projects were completed with a benefit-to-cost ratio exceeding what was forecast prior to the start of construction. The two projects with an erosion in the initial benefit-to-cost ratio of more than 10 percent were still completed with a positive benefit-to-cost ratio, thus validating the initial investment decision.

Strategic Goal 2: Protect, Restore, and Manage Environmental Resources

To accomplish this strategic goal, the Civil Works Program must anticipate, identify, and address the nation's needs for the environmental restoration and enhancement of our water resources. We will work with our partners, including other federal and state agencies, nongovernmental organizations, and Native American tribes, to develop creative solutions that are both effective and efficient, employing, where appropriate, leading-edge technologies and methodologies.


Kissimmee River C-38 Restoration Project, Florida.

We are pursuing the restoration of environmental damages and losses that resulted from past actions where we did not adequately anticipate or take into account the environmental consequences of those actions. We plan to exercise our authority to its fullest extent in support of the ecosystem restoration portion of the Civil Works Program. In addition, we will support the national commitment to wetlands embodied in the Clean Water Action Plan, by adding to the nation's environmental resource base through restoration and enhancement projects. We are working to ensure that there is no further net loss of wetlands due to unwise development activity.

In addition, the Corps of Engineers has been given responsibility to execute an environmental clean up program of contaminated sites under the Formerly Utilized Sites Remedial Action Program (FUSRAP). Improvement of the overall efficiency of the clean up

program will result in a reduction of the potential risks to health and the environment at high-priority sites.

Our success in pursuit of this strategic goal is demonstrated in the performance measures that have been developed for the Environmental and Regulatory business programs.

Environmental

The Environmental business program emphasizes environmental stewardship, ecosystem restoration, mitigation, environmental compliance, and research and development. The work undertaken by this program takes many forms, reflecting the growing national demand for restoration and protection.


Ducks, geese, and herons are protected on more than 85,200 acres of Army Corps of Engineers land devoted to wildlife management.

We have established three program objectives in support of the strategic goals of the Civil Works Program. They are as follows:

- Invest in mitigation and restoration projects or features to make a positive contribution to the nation's environmental resources
- Invest in mitigation and restoration projects and in the operation of program facilities to assist in the recovery of federally listed threatened and endangered species
- Ensure that the operation of all Civil Works facilities and management of associated lands, including out-granted areas, complies with the environmental requirements of the relevant federal, state, and local laws and regulations

Performance Measure 1: The percentage of Civil Works Program-administered mitigation land meeting the requirements of the authorizing legislation or of the relevant Corps of Engineers decision document. Target for FY 2001 was to meet requirements for 70 percent of mitigation lands. This measure is calculated as a percentage of all designated program-administered mitigation land for which we meet mitigation requirements.

Performance Result 1: During FY 2001, we administered 713,374 mitigation acres, representing a slight increase over the previous fiscal year. The increase was the result of inventory records for mitigation lands being revised to add land administered for mitigation purposes. We achieved 78 percent of mitigation requirements, exceeding the performance target of 70 percent. The

Table 7. Civil Works-Administered Mitigation Land

	FY 1999	FY 2000	FY 2001
Total acreage designated as Civil Works-administered mitigation land	724,224	712,933	713,374
Mitigation land for which requirements were met (acres)	553,191	552,441	554,880
Percentage of Civil Works-administered mitigation lands for which mitigation requirements were met	76%	77%	78%

Table 8. Recovery Plan Projects

	FY 1999	FY 2000	FY 2001
Number of opportunities to participate in recovery of federally listed species	484	503	505
Number of opportunities taken	450	470	491
Percentage of opportunities taken to assist in the recovery of federally listed species	93%	93%	97%

figure of 70 percent was set as an initial target until we gained experience in both baseline measurement and in linking performance levels to resourcing levels (Table 7). For FY 2002, the performance target is being raised to 80 percent.

Performance Measure 2: The percentage in which the Civil Works Program engaged of the total opportunities to participate in Recovery Plan projects for federally listed species should be not less than 30 percent. [The performance target is being raised for FY 2002 to 95 percent based on the experience of FY 2001 and the preceding years.]

Performance Result 2: During FY 2001, we participated in recovery programs for 78 federally listed species, engaging in 491 separate opportunities to benefit these species or their habitats (Table 8).

Performance Measure 3: To correct 100 percent of all significant findings and 70 percent of all major findings annually. A significant finding is a determination that we are not meeting an environmental requirement and that the concern poses, or has a high likelihood of posing, a direct and immediate threat to human health, safety, the environment, or the mission. The success rate of correcting significant and major findings is calculated annually.

Performance Result 3: During FY 2001, we corrected two of three, or 67 percent, of the significant findings, and 62 percent of major findings (Table 9). The Corps corrected the two significant findings identified during FY 2001; the remaining finding from the prior FY has been partially corrected to eliminate the immediate threat to the environment. The Corps anticipates total correction of the one open significant finding in FY 2002 subject to funding availability. The correction rate for major findings was lower because many findings were identified late in the fiscal year. The Corps continues to place a high priority on achieving both performance goals in FY 2002.

Table 9. Correction of Significant and Major Environmental Findings

	FY 1999	FY 2000	FY 2001
Number of significant findings	10	5	3
Percentage corrected	50%	80%	67%
Number of major findings	528	555	400
Percentage corrected	41%	70%	62%

Regulatory

The Civil Works Program operates a comprehensive regulatory program that protects navigation and the aquatic environment. The primary objective of the program is to protect the aquatic environment. Additional program management objectives relate to minimizing the amount of time taken to process decisions on requests for permits to work in the waters of the United States. The following program objectives have been established to support the pursuit of the strategic goals of the Civil Works Program:

- Administer the regulatory program in a manner that protects the aquatic environment
- Administer the regulatory program in a manner that renders fair and reasonable decisions for applicants
- Administer the regulatory program in a manner that enables efficient decision making.

Performance Measure 1: Administer the regulatory program in a manner that protects the aquatic environment.

Performance Result 1: During FY 2001, 43,832 acres of wetlands were restored, created, enhanced, or preserved, offsetting the 24,073 acres that were lost to permitted development (Table 10). This realized the performance objective of no net loss of wetlands.

Table 10. Development and Mitigation of Wetlands

	FY 1999	FY 2000	FY 2001
Wetland acres permitted for development	21,556	18,900	24,073
Wetland acres mitigated	46,433	44,757	43,832

Performance Measure 2: The number of all permit decisions completed within 60 days, expressed as a percentage of all permit decisions. Target is to complete 85 to 95 percent of all actions within 60 days.

Performance Result 2: During FY 2001, we completed 73,415 permit actions in 60 days or less, representing an 88 percent success rate (Table 11). While this figure exceeds the performance target of 85 percent, it reflects a decline from last year's performance of 90 percent. The general trend has been downward since FY 1998, when 94 percent were completed in 60 days. Performance has been dropping due to additional review requirements for both individual permits and some nationwide permits.

Table 11. Permit Actions Completed within 60 Days

	FY 1999	FY 2000	FY 2001
Number of permit actions completed within 60 days	83,413	80,035	73,415
Percentage of actions completed within 60 days	92%	90%	88%

Performance Measure 3: The number of standard permit decisions completed within 120 days, expressed as a percentage of all standard permit decisions. Standard permits are those for larger projects that require extensive review. Target is to complete 70 to 80 percent of decisions on standard permits within 120 days.

Table 12. Standard Permit Actions Completed within 120 Days

	FY 1999	FY 2000	FY 2001
Number of standard permit actions completed within 120 days	3,175	2,521	2,600
Percentage of actions completed within 120 days	72%	62%	60%

Performance Result 3: During FY 2001, we completed 60 percent of all standard permit actions in less than 120 days (Table 12). This is below the lower limit of the performance range. Performance dropped due to additional individual permit workload, resulting from changes in the nationwide permit program, primarily Nationwide Permit 26. There are also additional review requirements, such as endangered species, that have affected review time.

Strategic Goal 3: Provide Justified Level of Project Services of High Quality to the Satisfaction of Customers and Project Sponsors

Our customers, partners, and stakeholders expect delivery of the level of service that was designed into a Civil Works project, and expect that high quality of service to continue even with changing demands on the project. This strategic goal was developed to ensure that the Civil Works Program continues to meet or exceed those customer expectations. This requires that we pay particular attention to the quality and performance of our projects, that we recognize and analyze problems early, and that we identify cost-effective ways to prevent, lessen, or correct any deficiencies.

In addition, we recognize that we must continue to provide facilities that meet the needs of diverse and changing user groups. For projects to deliver the desired performance and service levels, they must be able to serve the needs of their users. Projects are typically designed to accomplish a particular purpose for a specified lifespan. In order that they continue to meet the changing needs of users, they may have to undergo design changes or may need to be rehabilitated or reconstructed so that their functions may be modernized.

The performances of the Navigation, Flood and Coastal Storm Damage Prevention, Hydropower, Recreation, and Water Supply business programs reflect the overall success of the Civil Works Program in achieving this strategic goal. The performance of each business program is outlined in the following sections.

Navigation

The responsibilities of the Navigation program include the improvement and maintenance of port and harbor channels and the inland waterways that handle the nation's maritime commerce. The objective of the program is to ensure that the navigation infrastructure is operated and managed in such a manner to assure justified levels of service. To measure our success we have developed three performance measures that year after year depict the progress we have made and how successful we have been in managing the navigation program. These are as follows:

Tugboats assist a ship on the Mississippi River at Head of Passes, Louisiana.

- Monitor the volume of commerce and the operational cost of the fuel-taxed-waterways component of the navigation system
- Assure that high use of navigation infrastructure (waterways, harbors, and channels) is available 90 percent of the time it is scheduled for availability to commercial traffic
- Maintain a level of dredging that assures safe and reliable harbor and channel availability.

Performance Measure 1: Monitor the volume of commerce and the operational cost of the fuel-taxed-waterways component of the navigation system.

Performance Result 1: Data for calendar year 2000 and 2001 were not available at the time of printing.

Table 13. Volume of Commerce and Operational Cost

	FY 1999	FY 2000	FY 2001
Ton-miles of commerce carried (billions)[1]	276	N/A[2]	N/A[2]
Cost per ton-mile	$0.0018	N/A[2]	N/A[2]

[1]Ton-mile data are reported on a calendar basis. Costs are on a fiscal year basis
[2]Data were not available at time of printing.

Performance Measure 2: Percentage of time program facilities are open to commercial traffic.

Performance Result 2: During FY 2001, the availability of inland navigational infrastructure decreased by 2.5 percent to 93.5 percent (Table 14). The availability of the nation's navigational infrastructure continues to exceed the performance target of 90 percent.

Table 14. Availability of Navigational Infrastructure

Performance Achieved	FY 1999	FY 2000	FY 2001
Actual availability	96.2%	96.0%	93.5%

Performance Measure 3: The volume of material dredged is largely dependent upon acts of nature and factors beyond the con-

Table 15. Volume and Cost of Material Dredged

	FY 1999	FY 2000	FY 2001
Cubic yards removed (millions)[1]	242	243	218
Cost per cubic yard	$2.40	$2.42	$2.56

[1]Volume of material dredged reflects maintenance dredging only, and does not include dredging done for new construction projects.

trol of man. No performance target has therefore been established. The depth of material to be dredged and the disposal of dredged material are the two main factors influencing the cost of dredging.

Performance Result 3: During FY 2001, we removed 218 million cubic yards of dredged material for maintenance dredging, at a cost of $2.56 per cubic yard (Table 15).

Flood and Coastal Storm Damage Reduction

There are two general approaches to reducing flood damage. The first approach calls for the use of large-scale engineering projects to prevent floodwaters from inundating property. The second approach calls for the modification of property susceptible to flooding, to minimize the risk of damage. Civil Works projects usually use a combination of both approaches. The program objective is to operate and maintain existing federal infrastructure to provide design levels of protection. Essential to the success of the program objective is the requirement to maintain Civil Works facilities to assure that facilities will function as designed.

Table 16. Flood Damages Prevented

(Dollars in billions)	FY 1999	FY 2000	FY 2001
Flood damage prevented	$21.2	$2.8	$21.7[1]
10-year rolling average	$22.3	$20.8	N/A[2]

[1]Preliminary estimate of the dollar amount of flood damage prevented.
[2]Value will be determined when FY 2001 flood damage prevented figure is finalized.

Performance Measure 1: Actual performance of Civil Works facilities in reducing damage where flooding would otherwise have been experienced.

Performance Result 1: During FY 2001, the Corps preliminary estimates show a prevention of $21.7 billion in flood damage (Table 16).

Hydropower

The Civil Works Program operates 346 hydroelectric power-generating units at 75 multipurpose reservoirs, providing a significant supply of renewable-source energy to the nation. The electricity is distributed by federal power marketing agencies. To ensure that we continue to provide much needed energy to the nation, we have established a single program objective:

- Minimize the incidence of unplanned outages to hydroelectric power production.

Performance Measure 1: Two measures are monitored: kilowatt-hours generated, to measure total power generation; and cost per kilowatt-hour, to measure generating efficiency. Performance targets for production are not set because power generated is largely dependent upon hydrologic conditions that cannot be managed.

Performance Result 1: During FY 2000, the Civil Works Program generated 96.1 billion kilowatt-hours (Table 17), representing a decrease of 3.0 percent from FY 1999 (within normal annual variations). The cost per kilowatt-hour was not available at time of this report publication.

Table 17. Kilowatt Hours Generated

	FY 1999	FY 2000	FY 2001
Kilowatt-hours generated (billions)	99.1	96.1	N/A[1]
Cost per kilowatt-hour	$0.0236	N/A[1]	N/A[1]

[1]Data were not available at time of printing.

Performance Measure 2: Maintain a high degree of hydroelectric power availability at multipurpose reservoir projects. Our goal is to keep the forced (unplanned) outage rate at less than 4.5 percent. The lower the forced outage rate, the more reliable and the less expensive is the electricity service we provide to our customers.

Table 18. Hydroelectric Power Availability

	FY 1999	FY 2000	FY 2001
Performance target	4.5%	4.5%	4.5%
Actual availability	3.69%	N/A[1]	1.84%

[1]Data were not available at time of printing.

Performance Result 2: Our performance during FY 2001 towards minimizing forced outages was excellent. We achieved very low levels of unplanned outages of 1.84 percent, well below our performance target of 4.5 percent (Table 18).

Recreation

Most federal lakes were originally built with a single primary purpose, and benefited mainly the local population. Public needs and values have changed, however, and we have sought to serve the evolving public interest by adapting our reservoirs for multiple uses, provided there is sufficient legislative authority to do so. To support the broader strategic goals of the Civil Works Program and to achieve maximum cost-effectiveness in the provision of outdoor recreation services, we have established the following program objectives:

- Provide outdoor recreation opportunities in an effective and efficient manner at Civil Works-operated water resource projects
- Provide outdoor recreation opportunities to meet the needs of present and future generations.

Performance Measure 1: Cost per visitor-day of providing outdoor recreation facilities. The cost per visitor-day is determined by a number of variables. While Civil Works is able to manage the cost of providing recreation facilities, the number of visitors who use these facilities is governed in large part by external factors such as the weather and prevailing economic conditions. Historically, no management performance target has therefore been specified.

Table 19. Recreation Usage

	FY 1999	FY 2000	FY 2001
Visitor-days (millions)	224	212	209
Cost per visitor-day	$0.88	$1.24	$1.28

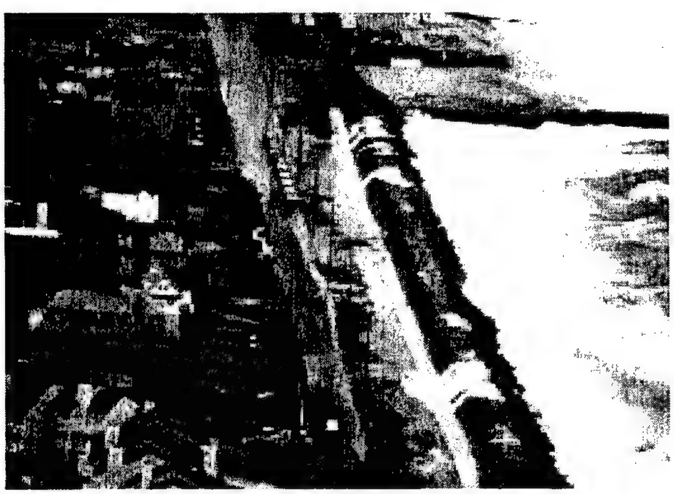
Performance Result 1: During FY 2001, the number of visitor-days at our outdoor recreation areas decreased from 212 to 209 million (Table 19). Preliminary estimates indicate our cost per visitor-day increased slightly with the slight drop in visitation.

Water Supply

Performance measures for this business program have not been fielded.

Strategic Goal 4: Reduce Annual Losses Resulting from Natural and Man Made Disasters

By developing and implementing new ways to reduce the risk of flood and storm damage losses, the Civil Works Program is able to reduce potential flood damage, saving our nation billions of dollars. Every year we strive to reduce further the risks associated with flooding and to increase our responsiveness to natural disasters. The Emergency Management business program supports this strategic goal.



View of Sea Bright, New Jersey, coastline as a storm attacks the seawall.

The Civil Works Program includes a disaster response and recovery program, maintained by the Corps of Engineers under Public Law 84-99 and under the Federal Response Plan in coordination with the Federal Emergency Management Agency and others. Civil Works response activities are intended to supplement state and local efforts. Our disaster preparedness and response capabilities are not limited to water-related disasters, but draw on the engineering skills and management capabilities of the Corps to encompass a broad range of natural disasters and national emergencies.

Through our emergency preparedness planning and disaster response capability we are able to make a significant and direct contribution to our national security objectives. We have established four program strategies to support the strategic goals of the Civil Works Program. They are as follows:

- Attain and maintain a high and consistent state of preparedness
- Provide a rapid, effective, and efficient all-hazards response capability, prepared for deployment anywhere worldwide
- Provide the leadership to ensure effective and efficient long-term crisis recovery, emphasizing recovery of the nation's water resources infrastructure

- Provide professional emergency management program services to international customers.

Performance measures for this business program are being developed, but none have been implemented.

Strategic Goal 5: Be a World-Class Technical Leader

A priority of the Corps of Engineers is to maintain a leading-edge technical capability today and into the future. Ensuring that we can deliver high-quality and responsive engineering services to the nation and others requires that we have a solid foundation in a core set of technical skills. To that end, and in anticipation of future requirements, we have begun to identify the range of expertise that we have within the Corps; we have also begun to identify those critical functions where our reserves of talent may be depleted through retirement and attrition. We maintain the world-class capabilities inherent in our laboratories through capital investment, and we are engaging in research and development to improve our operational processes so that we may better address the nation's water resource problems and opportunities.

We will leverage our core technical capabilities as appropriate by providing engineering-related services to the Department of Defense agencies, other federal agencies, and authorized entities through our Support for Others business program. Overseas, we help countries enhance their public sector capacities, especially in managing water for development of their economies and protection of their environments and ecosystems. In doing so, we are able to promote democracy, peace, and stability, in part by assisting legitimate authorities to improve their infrastructure and environments and to ease conditions that potentially can lead to conflict.

To be a world-class technical leader it is imperative that we seek continuous improvement in the processes we use to meet the needs of our customers, partners, and stakeholders. The feedback provided by our customers and project sponsors is the best indication of how effective we are in meeting the quality, timeliness, and cost effectiveness of their expectations. We will continue to seek that feedback in order to strengthen our overall performance and to raise our customers' satisfaction.

Actions Planned to Improve Performance

The Civil Works strategic goals indicate what needs to be done to address critical national water resources needs. Our strategies outline how we intend to pursue each strategic goal. Each strategic goal incorporates two or more of the following overarching strategies:

- Anticipate water resource needs
- Adopt integrated approaches
- Proactively position policies, people, and processes
- Communicate, coordinate, collaborate, and educate.

Anticipate Water Resource Needs

No matter how well we believe we are managing our water resources, to plan appropriately for the accomplishment of our mission we must at all times be responsive to events, trends, issues, and technologies and to the sentiment of the general public, experts, our stakeholders, and Congress. We therefore focus on the early identification of water resource needs, developing and revising as necessary the strategies we need to manage change and to ensure our continuing effectiveness. While maintaining our traditional mission expertise, we must also remain alert to emerging areas requiring specialized technical expertise. We take on leadership roles where we have the appropriate authority, expertise, and experience, and we partner with federal agencies and state and local governments, including tribal governments, where it is appropriate, to leverage their capabilities alongside our own. We additionally invest in the research, development, and implementation of innovative technologies and processes, and in the exploration of creative approaches and solutions that have the potential to advance our capabilities and our ability to improve our water resources.

Adopt Integrated Approaches

The use of integrated water resource management is critical to our success in balancing and combining disparate water resource needs, objectives, and priorities. Environmental restoration will become an increasingly important budgetary priority as the nation strives to compensate for the adverse effects of past economic development. As we move forward we will seek to balance competing needs and objectives through the use of a "watershed" framework that unites technical experts, stakeholders, and decision makers in the task of addressing resource needs, opportunities, conflicts, and trade offs. We will seek also to assist in regional planning; to infuse an environmental ethic into all mission areas and engineering functions; and to develop and employ holistic methodologies. Through this integrated approach, we aim to unify the work on our ongoing programs and to leverage scarce

resources. We are also seeking through this approach to develop and adopt new systems, models and tools; to apply interdisciplinary methods and views; and to identify and clarify overlaps and interdependencies.

Proactively Position Policies, People, and Processes

Customer satisfaction demands that we continue to improve performance. It is essential that we provide the support our people need to best accomplish their mission. With this in mind, we strive to provide updated policies and guidelines to reflect current requirements. To ensure the continuance of a qualified workforce, we employ recruitment and retention policies that enable us to meet our staffing and project requirements. To seek performance improvements, we will use the most modern performance management approaches and benchmarks, while we continue to use our project management business process to effect control over all we deliver and ensure our products and services meet customer expectations. To ensure that all sectors of our organization can leverage the experience of others, we employ knowledge management strategies to provide operational strength through connectivity.

Communicate, Coordinate, Collaborate, and Educate

We must improve the ways in which we communicate with our partners. As we increasingly seek to develop strategic partnerships in our work, it is important that we:

- Listen with an open mind to our stakeholders, partners, customers, and critics
- Encourage joint planning
- Develop multiple methods and materials for communicating the water resources story to a variety of audiences
- Get our message out more consistently, reliably, and accurately
- Promote technology transfer of analytical and decision-making methodologies between us and our partners.

As we seek to address water resource challenges, we also must collaborate more closely at all levels with governmental and nongovernmental entities. Our forums and management processes should be more intergovernmental in nature, and through the use of a regional approach to problem solving we must seek to devolve greater authority to nonfederal agencies; we must also enhance our capabilities at the state and local levels. Nongovernmental organizations and tribal nations share many of our goals and values regarding water resources, and we should view them as potential partners in educating the general public, stakeholders in water resources, public officials, and key decision

makers about the challenges that we face and the options that are available to us as we strive to overcome those challenges.

Summary

The successful execution of these strategies will enable us to accomplish our goals and conquer the major water resources challenges that we face. And by delivering to the taxpayer a notable return on investments made in the nation's civil works, we can enhance the quality of life for all Americans.

Financial Statement Review

FY 2001 represented another year of continuous improvement for the USACE Civil Works Fund, as we moved ever closer to fulfilling the requirement of producing auditable financial statements in compliance with the Chief Financial Officers Act of 1990 (CFO Act). Within DoD, the Civil Works Fund has been at the forefront in implementing federal financial management reform.

These financial statements were compiled in accordance with guidance issued by the Office of Management and Budget and supplementary guidance provided by DoD. The Army Audit Agency audited the statements, which comprise the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing.

Overview of the Financial Statements

The financial statements for the Civil Works Fund are presented in a comparative format, providing financial information for FY 2000 and FY 2001. While comparative statements are not required until the agency receives an unqualified audit opinion on its financial statements, we opted for early implementation of the requirement, as encouraged by the Office of Management and Budget.

Below are the financial highlights of each statement. These highlights focus on significant balances or conditions to help clarify the Civil Works Fund's operations. Additional explanatory information may also be found in the notes that accompany these statements.

Balance Sheet

This statement presents the assets, liabilities, and net position of the Civil Works Fund as of 30 September 2000 and 2001. Civil Works assets amounted to $41.2 billion at FY 2001 year-end. Of this amount, 85 percent of the dollar value is in the property, plant, and equipment accounts. Relative to its assets, the liabilities of Civil Works are low, amounting to $2.4 billion. The liabilities are primarily related to $991 million in deferred credits from long-term receivables recorded for water storage contracts and hydraulic mining; $598 million in accounts payable; and $354 million in accrued payroll.

The third and final major component of the Balance Sheet is net position. In the aggregate, the various elements of the net position section on the Balance Sheet are also referred to as "equity." Equity is the residual interest in the assets of the entity that remains after deducting its liabilities. For FY 2001, the Civil Works net position was $38.8 billion, representing a 2 percent growth over FY 2000.

Statement of Net Cost

This statement presents the annual cost of operating the various Civil Works programs. To the extent a program generates revenues, these amounts offset gross costs to arrive at the net cost of operations. For FY 2001, program costs amounted to $4.8 billion, representing a 10 percent increase from the previous year. Conversely, program revenues dropped 27 percent from FY 2000, amounting to $494 million. Overall, FY 2001 witnessed a 17 percent increase in the net cost of operations, to $4.3 billion.

Statement of Changes in Net Position

This statement presents those accounting items that caused the net position section of the Balance Sheet to change from the beginning to the end of the reporting period. The Civil Works Fund enjoyed a positive $1.4 billion net result in operations. However, after previous-period adjustments were factored in, the net change to the Cumulative Results of Operations amounted to $815 million. These previous-period adjustments represent refinements to our accounting procedures as we work to continuously improve our operations. The net position at year-end was $38.8 billion, a 2 percent increase from the previous year.

Statement of Budgetary Resources

This statement is particularly meaningful as it provides information on how the Civil Works Fund obtained its budgetary resources and the status or remaining balances of those resources at year-end. Additionally, information on the outlays or actual cash disbursements for the year is disclosed in this statement.

Total budgetary resources increased by nearly 10 percent for FY 2001, to $11.6 billion. This increase was due primarily to a 20 percent increase in budget authority and to a 15 percent increase in spending authority from the offsetting of collections. The Civil Works Fund incurred $9.6 billion in obligations during the year, and disbursed $5.1 billion.

Statement of Financing

This is a reconciling statement that tracks the relationship between the proprietary accounts and the budgetary accounts of the Civil Works Fund. The Statement of Financing provides information on the total resources provided to the Civil Works Fund during the fiscal year and on how those resources were used.

The first section of the statement, "Obligations and Nonbudgetary Resources," constitutes the total amount of $5.2 billion for which the Civil Works Fund may have a future liability that would eventually require cash payments.

The second section, "Resources That Do Not Fund Net Costs of Operations, " identifies and adjusts budgetary transactions recorded by the Civil Works Fund for changes in the amount of goods, services, and benefits ordered but not received; the costs capitalized on the balance sheet; and financing sources that fund costs of previous-periods. For FY 2001, the fund had negative $2 billion in resources that did not fund the net costs of operations.

The third section, "Components of Costs of Operations That Do Not Require or Generate Resources," is used to adjust the obligations and resources that do not fund net costs of operations, in order to determine the net cost of operations. Thus, sections one and two are reconciled to yield a net cost of operations of $4.3 billion. This amount also ties back to the Statement of Net Cost.

Management Integrity

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires an annual review of the adequacy of the U.S. Army Corps of Engineers program and management controls. The Director of Resource Management, the Chief Financial Officer, is responsible for oversight and for reporting on the Corps of Engineers management and internal control program. The Chief Financial Officer also chairs the Internal Management Control Panel that recommends actions pertaining to identified material weaknesses.

The Internal Management Control Program calls for individual offices and subordinate commands to provide assurances each year of the adequacy of internal controls within their own organizations. These constitute the primary assurance that management controls are in place and working effectively. Based on these and alternative forms of reviews, such as all known audits, investigations, and inspections, the Chief of Engineers asserted that he has reasonable assurance that management control systems are in place. In the past year, we have corrected several known weaknesses; we are addressing continuing challenges.

Corrected Weaknesses

Property Authorizations

Some organizations in the past did not use prescribed allowance tables to ensure that property acquired was both authorized and required. In FY 2001, we updated our personal property management system and developed an automated query process to improve our performance in this area.

Our property management system now includes a look-up table that requires users to select a valid authorization source document before requisitioning any equipment. This improvement will provide for the controlled use of assets and will allow requisition only of the authorized amount of materiel necessary to accomplish our mission. An improved authorization process will also allow for cross-leveling of equipment between activities and the potential reduction of equipment across the board.

Control of Personal Property

We recognized a need to improve the physical control and financial accountability of personal property. We have implemented a lifecycle process that integrates the business processes electronically embedded in the Corps of Engineers Financial Management System (CEFMS) with our personal property management system. This is now a transaction-based system that manages each piece of property entering and exiting our control. To ensure integrity in accountability, all property is inventoried annually, using barcode

readers, and is reconciled electronically with the information in the property system. In addition, CEFMS is reconciled to Real Estate Management Information System (REMIS) and Automated Personal Property Management System (APPMS).

Continuing Challenges

Information Technology Capital Planning and Investment Decision Process

The Clinger-Cohen Act of 1996 requires the institutionalization of an information technology capital planning and investment process to integrate the programming and budgeting for IT investments by monitoring and tracking such investments. The current process is fragmented, with some projects receiving funding despite not having been through the process.

To institutionalize this process, we will, by the end of FY 2002, publish an Engineer Manual clearly delineating the process. We also plan to conduct three regional training sessions for IT planners at all of our divisions, districts, field operating agencies, and labs, and will follow up by making this process a focus item during our command inspections.

Subcontract Plans for Small Businesses

Procedures for evaluating and negotiating subcontracting plans and for evaluating subcontractor performance are not wholly in compliance with the law as it pertains to small business subcontracting. We are in the process of implementing an Internet-based automated system that will employ "best of breed" automated procedures. In early FY 2002 we will implement a pilot system, with the aim of fielding the full system Corps-wide by early FY 2003.

Internal Accounting System

Through an independent assessment conducted during the annual Chief Financial Officers Act audit, auditors found the Corps of Engineers Financial Management System to be in substantial compliance with two of the three requirements of the Federal Financial Management Improvement Act of 1996. The auditor reported that we are in compliance with federal accounting standards and that CEFMS properly uses a standard, transaction-driven general ledger.

FFMIA also requires that the accounting system provide complete, reliable, consistent, timely, and useful information. Because of specific weaknesses in data integrity, accumulated depreciation calculations, and the financial documentation of construction projects initiated before implementation of CEFMS, we are not yet fully compliant. We are continuing to address and correct these problems.

Future Financial Trends and Business Events

The Civil Works Program serves as the custodian for America's water resources. A look at the trends projected over the next 20 years reveals how important it will be to fund the Civil Works Program adequately and how important it will continue to be to use those funds wisely.

Emerging Challenges and Future Trends

Growth in Waterborne Commerce and an Aging Infrastructure

Over the next 20 years, we expect inland traffic to grow by up to 37 percent. Yet already we are operating and maintaining an aging water resources infrastructure that is nearing, and in some cases surpassing, its 50-year planned design life. If we are to maintain expected performance levels, we must rebuild or replace aging locks and dams. Delays associated with aging locks cost shippers, carriers, and ultimately consumers $385 million in increased operating costs annually.

"As I look to the future, we have some serious issues of infrastructure that we need to deal with in this country."

LTG Robert B. Flowers
Chief of Engineers

A lock modernization program has been underway since passage of the 1986 Water Resource Development Act. To date, we have invested $1.7 billion in 14 locks, with an additional $3.4 billion programmed for construction on an additional 13 locks. Funding at less than optimum levels has increased construction times by between one and five years, however, resulting in direct cost increases of more than $250 million due to inflation and in an estimated $1.7 billion in transportation savings lost.

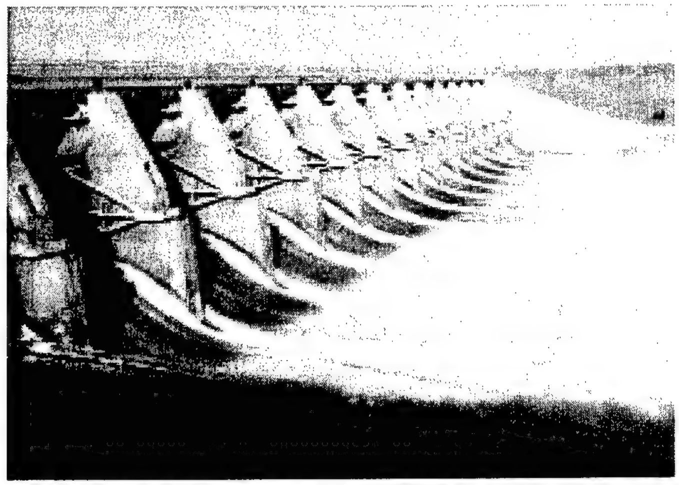
Our ports are facing a similar growth in usage. Domestic and international marine trade is expected to double by 2020, to more than 4 billion tons of cargo per year. At the same time, the container ship of choice is increasingly a vessel that requires 50-55 feet of depth, found only in a few American ports.

Failure to react to this trend would result in a decline in our marine system, to less competitive ports, higher prices for consumers, and a reduction in economic growth potential.

Continuing Development of Flood-Prone Areas

Floods account for 85 percent of our natural disasters annually, causing losses and damage of $4 billion each year. The trend is for this to increase, as an increasingly affluent society moves closer to our water resources. Urban development in the flood plains is

increasing at a rate of 1.5 percent to 2.5 percent annually, but fewer than 15 percent of more than 20,000 American communities have structural flood protection. Since 1980, migration to the coasts has seen the coastal population rise to more than 41 million, a rate of growth outpacing overall U.S. population growth by 15 percent. Failure to respond to these changes will inevitably translate into an increase in preventable social and economic loss.



Gavins Point Dam Spillway. View of spillway 29,000 CFS Release. Missouri River. Yankton, South Dakota.

Increasing Priority on Environmental Considerations

Rivers and coastal waters are vital to the U.S. economy, but over the years there have been conflicting demands on our water resources. Rivers for example, were once commonly dammed to provide flood control, low-cost hydroelectric power, and water supplies, but environmental concerns have essentially now preempted considerations of multipurpose reservoir construction. Flood plains are sites for business, agriculture, industry, and homes, but this economic development exacts a cost on the environment that society is increasingly disinclined to pay. We must find better ways to balance economic and environmental demands so that we can continue to realize sustainable development.

"Thoughtful development does not damage the environment."

LTG Robert B. Flowers
Chief of Engineers

Sustainable development emphasizes reinvestment in communities through partnerships and the development of regional strategies for economic growth and environmental protection. In 1998, the American Society of Civil Engineers graded American infrastructure. They graded wastewater systems D+, noting the contamination of rivers, lakes, and groundwater sites. They estimated that it would cost $140 billion over the next 20 years to improve wastewater treatment and build new plants. They graded the treatment of solid waste C-, but anticipated that expenditures for the disposal of nonhazardous municipal solid waste will grow.

Impact on Future Financial Position

The trends above indicate a shortage of available funding. Our operations program has lagged far behind requirements for many years—our construction backlog, for example, is $38 billion for the completion of all active and/or authorized projects. Our requirements in this area are increasing and will place more strain on Civil Works resources.

Our operations and maintenance backlog consists of the unfunded work needed to preserve the integrity of our projects and to ensure their continued viability. Delays in performing this work will result in more extensive and costly repairs and in higher operational costs. The critical backlog was $415 million in FY 2001, and is expected to be $702 million in FY 2002. This does not even address the $1.1 billion of unfunded work that is required but not yet considered critical. The need to address this critical financial issue is essential to America's economic well-being.

Projects in the backlog are vital to commercial navigation and economic prosperity; it is essential, for example, that work on deepening the Port of New York and New Jersey continue. There are also important projects in the backlog that address flood damage reduction in southeast Louisiana and on the American River in California, and that address environmental restoration in the Florida Everglades.

Business Initiatives

Increased funding would provide the swiftest solution, but the Civil Works budget is likely to remain relatively unchanged in the foreseeable future. We must therefore become more efficient in our use of current funding. We are pursuing several initiatives to this end.

Design-Build Project Delivery System

We are gradually moving away from a design-bid-build project delivery system toward design-build, an approach that provides the benefit of working with a single contractor over the course of a project. Used more extensively by the Corps of Engineers on military programs, it is only a matter of time before this method spreads significantly to Civil Works.

We have already used design-build on a few projects, such as the flood retention structure for the Department of Energy's Los Alamos National Laboratory in New Mexico. This project, where time was of the essence to protect against potential flooding due to forest fires, saw the completion of a 70-foot high, 390-foot long roller-compacted concrete structure for $8 million in a mere eight weeks.

For this method to work, we must concentrate on defining function or performance characteristics and on selecting the best-value design-builder. The results of the Los Alamos project nonetheless indicate that design-build can reduce the cost of projects and help us address our construction backlog.

Performance-Based Contracting

The Department of the Army has emphasized use of performance-based contracting for four years. The Army has established as a minimum performance level the award of at least 50 percent of service contracts as performance-based, with a goal of striving to continually exceed that level. The Corps has been reporting its performance to the Army in awarding performance-based service contracts of $250,000 dollars or greater on a quarterly basis since FY 1997 and has exceeded the 50 percent goal in every reporting quarter since FY 1997.

Recent Corps activities have focused on further increasing the use of performance-based contracting. These include the following:

- In FY 1999, the Corps established a performance-based service contract library on the Corps internet web site (http://www.hq.usace.army.mil/cepr/asp/main/parc.asp)
- Also in FY 1999, the Corps helped the Department of Defense develop the Performance-Based Services Acquisition Guidebook
- In FY 2001 the Department of Army published a Performance-Based Service Acquisition Implementation Plan, which the Corps is fully supporting
- Also in FY 2001, all Corps acquisition personnel will have completed training in Performance-Based Service Acquisition.

Paperless Contracting

We continue to strive toward becoming a paperless organization. Our standard procurement system does all contract preparation on-line, eliminating the need for paper. It not only posts solicitations and contracts to a central site, but also can receive bids electronically. This latter function has yet to be implemented, as we must first await development of a standard for electronic signatures. We are positioned to move ahead when this occurs.

As part of the Army, we are part of the "Single Face to Industry" program that uses the Internet to list solicitations from all major commands. Our electronic bid solicitation system uses a site specific to the Corps. If the solicitation is small, it can be downloaded from the Internet. For larger packages, a CD-ROM is available that contains the solicitation, drawings, appendices, rules, and regulations.

Expanding E-Government Services.

The Army has two major initiatives underway, and the Tri-Services have a third major cooperative initiative to promote online procurement.

- The Department of the Army has implemented a Standard Procurement System to foster an all-electronic procurement system. The Standard Procurement System is designed to support all contract preparation and management being done electronically. It has the ability to post bid solicitations and contracts to a central site. It also has the ability to receive bids electronically, but this capability has not been used above the Simplified Acquisition Process threshold because the Department of the Army has not completed development of a standard for electronic signature. The Simplified Acquisition Process allows the Federal Government to solicit and award purchases up to the Simplified Acquisition Threshold of $100,000 without issuing a formal solicitation or advertising in the Commerce Business Daily. The Corps is aggressively pursuing the innovative contracting initiative by supporting a pilot program that will automate even the source selection process and the electronic bid sets.

- The Department of the Army has implemented the Army Single Face to Industry as a single website to post all contract solicitations electronically. The Corps is working toward 100 percent participation in the Army Single Face to Industry website.

- The Tri-Services (Air Force, Army, and Navy) have implemented an Electronic Bid Solicitation System. The Corps uses a homepage website maintained by the Headquarters, U. S. Army Corps of Engineers, Office of Procurement and Acquisition that announces solicitations. For small and relatively simple solicitation packages, a direct download is allowed, while for other acquisitions a compact disk may be requested. This compact disk contains the solicitation, drawings, appendices, rules, and regulations as well as appropriate document readers.

Executive Resource Information System

A current initiative in the Directorate of Resource Management is to develop and field a new Executive Resource Information System. This system will provide RM the ability to analyze and track financial information across all 63 field offices without significant manual effort. The Corps of Engineers has vast amounts of financial information that reside in Oracle data tables. The directorate wants to maximize the use of this financial information by using the advancing technologies vested in Business Intelligence solutions for the ERIS. The capabilities provided

within the BI software are endless. Utilizing the drill-down features, for example, RM personnel can click on a troublesome variance to determine which Division(s) is(are) contributing to the problem. One additional click would drill-down to each District within a Division to narrow the problem even further, displaying the root of the problem. Once fully implemented, RM personnel will have powerful technologies that will enable corporate data views across all business areas within RM.

Civil Works Fund

Principal Statements and Notes

"Transforming to Meet the Nation's Needs"

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D. C. 20503

OFFICE OF FEDERAL FINANCIAL MANAGEMENT

MEMORANDUM FOR DOV S. ZAKHEIM
UNDER SECRETARY OF DEFENSE AND CONTROLLER

FROM: Mark Everson 1-10-02
Controller

SUBJECT: Waiver of FY 2001 Army General Funds and Working Capital Fund Audited Financial Statements

We understand that, due to the events of September 11, 2001, the Department of Defense is requesting a waiver of the fiscal year 2001 Army General Funds and Army Working Capital Fund audited financial statements. The Department of the Army's Resource Services Washington, the office responsible for execution and accounting of Headquarters Department of the Army funds, as well as the Army's centrally managed accounts, suffered substantial loss of budget and accounting personnel as well as loss of documents and files in the terrorists' attack

Accordingly, we grant your request and waive the requirement for the Army General Fund and the Army Working Capital Fund to prepare and submit FY 2001 financial statements.

We understand that the financial information has been collected and will be included in the Department of Defense-wide financial statements. We look forward to the timely receipt of this report and all of the other Defense-component financial statements currently required by Appendix B in OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

If you have any questions, please contact Kim Geier at (202) 395-6905.

Limitations of the Financial Statements

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, United States Code, section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

To the extent possible, the financial statements have been prepared in accordance with federal accounting standards. At times, the Department is unable to implement all elements of the standards due to financial management systems limitations. The Department continues to implement system improvements to address these limitations. There are other instances when the Department's application of the accounting standards is different from the auditor's application of the standards. In those situations, the Department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

Limitations Concerning National Defense PP&E Stewardship

As of the date these statements were prepared, the Federal Accounting Standards Advisory Board (FASAB) had not determined the final reporting requirements for ND PP&E. The Department cannot fully comply with existing reporting requirements, because many of the Department's accountability and logistics systems do not contain the cost of the ND PP&E assets. These systems were designed for the purpose of maintaining accountability and meeting other logistics requirements and not for capturing the cost of ND PP&E.

Given the complexity of the existing temporary reporting requirements, the enormous cost of implementing the temporary requirements and their temporary nature, the Department is suspending the reporting of ND PP&E information until such time as the FASAB adopts permanent reporting requirements.

Department of Defense • U.S. Army Corps of Engineers
As of September 30, 2001 • ($ in thousands)

	FY 2001	FY 2000
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	$2,537,990	$2,404,315
2. Investments (Note 4)	2,255,539	2,075,561
3. Accounts Receivable (Note 5)	476,541	151,301
4. Other Assets (Note 6)	0	0
5. Total Intragovernmental Assets	$5,270,070	$4,631,177
B. Cash and Other Monetary Assets (Note 7)	$3,990	$965
C. Accounts Receivable (Note 5)	1,028,288	1,050,363
D. Loans Receivable (Note 8)	0	0
E. Inventory and Related Property (Note 9)	54,719	59,469
F. General Property, Plant and Equipment (Note 10)	34,818,281	34,538,092
G. Other Assets (Note 6)	16,190	79,891
2. TOTAL ASSETS	$41,191,538	$40,359,957
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	$92,731	$87,543
2. Debt (Note 13)	30,512	18,212
3. Environmental Liabilities (Note 14)	0	0
4. Other Liabilities (Note 15 & Note 16)	1,167,317	1,166,330
5 Total Intragovernmental Liabilities	$1,290,560	$1,272,082
B. Accounts Payable (Note 12)	$505,326	$585,938
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	0
D. Environmental Liabilities (Note 14)	0	0
E. Loan Guarantee Liability (Note 8)	0	0
F. Other Liabilities (Note 15 & Note 16)	576,522	497,833
4. TOTAL LIABILITIES	$2,372,408	$2,355,853
5. NET POSITION		
A. Unexpended Appropriations (Note 18)	$1,214,901	$1,004,640
B. Cumulative Results of Operations	37,604,229	36,999,464
6. TOTAL NET POSITION	$38,819,130	$38,004,104
7. TOTAL LIABILITIES AND NET POSITION	$41,191,538	$40,359,957

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • ($ in thousands)

		FY 2001	FY 2000
1.	**Program Costs**		
A.	Intragovernmental	$1,014,550	$552,908
	B. With the Public	3,768,681	3,782,955
	C. Total Program Cost	$4,783,231	$4,335,863
	D. (Less: Earned Revenue)	(494,251)	(678,349)
	E. Net Program Costs	$4,288,980	$3,657,514
2.	**Costs Not Assigned to Programs**	0	0
3.	**(Less: Earned Revenue not attributable to Programs)**	0	0
4.	**Net Costs of Operations**	$4,288,980	$3,657,514

See Notes 1 and 19.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • ($ in thousands)

	FY 2001	FY 2000
1. Net Cost of Operations	$4,288,980	$3,657,514
2. Financing Sources (other than exchange revenues)		
A. Appropriations Used	4,310,086	4,017,634
B. Taxes and Other Nonexchange Revenue	919,801	800,241
C. Donations - Nonexchange Revenue	275	1,362
D. Imputed Financing (Note 20)	211,595	166,464
E. Transfers - in	1,084,642	21,836
F Transfers - out	(777,665)	(120,682)
G. Other	(8,859)	(647,287)
H. Total Financing Sources (other than Exchange Revenues)	$5,739,875	$4,239,568
3. Net Results of Operations	$1,450,895	$582,054
4. Prior Period Adjustments (Note 20)	(846,129)	360,235
5. Net Change in Cumulative Results of Operations	$604,766	$942,289
6. Increase (Decrease) in Unexpended Appropriations	210,262	(197,777)
7. Change in Net Position	$815,028	$744,512
8. Net Position-Beginning of the Period	38,004,102	37,259,592
9. Net Position-End of the Period	$38,819,130	$38,004,104

See Notes 1 and 20.

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • ($ in thousands)

	FY 2001	FY 2000
BUDGETARY RESOURCES		
A. Budget Authority	$5,518,284	$4,614,169
B. Unobligated Balance - Beginning of Period	1,638,977	2,136,227
C. Net Transfers Prior-Year Balance, Actual	(491)	(1)
D. Spending Authority from Offsetting Collections	4,504,749	3,909,101
E. Adjustments	(17,545)	(35,122)
F Total Budgetary Resources	$11,643,974	$10,624,374
STATUS OF BUDGETARY RESOURCES		
A. Obligations Incurred	$9,599,363	$8,926,397
B. Unobligated Balances - Available	2,044,122	1,694,496
C. Unobligated Balances - Not Available	489	3,481
D. Total, Status of Budgetary Resources	$11,643,974	$10,624,374
OUTLAYS		
A. Obligations Incurred	$9,599,363	$8,926,397
B. Less: Spending Authority from Offsetting Collections and Adjustments	(4,504,749)	(3,909,699)
C. Obligated Balance, Net - Beginning of Period	797,587	394,538
D. Obligated Balance Transferred, Net	0	0
E. Less: Obligated Balance, Net - End of Period	(743,772)	(715,876)
F Total Outlays	$5,148,429	$4,695,360

See Notes 1 and 21.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • ($ in thousands)

	FY 2001	FY 2000
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:		
A. Obligations Incurred	$9,599,363	$8,926,397
B. Less: Spending Authority from Offsetting Collections and Adjustments	(4,504,749)	(3,909,699)
C. Donations Not in the Entity's Budget	275	
D. Financing Imputed for Cost Subsidies	211,595	166,464
E. Transfers-In (Out)	1,735	
F. Less: Exchange Revenue Not in the Entity's Budget	(714)	(1,956)
G. Nonexchange Revenue Not in the Entity's Budget	(26,044)	23,067
H. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	(43,761)	(113,056)
I. Other	0	0
J. Total Obligations as Adjusted and Nonbudgetary Resources	$5,237,700	$5,091,217
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:		
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decrease	($281,946)	$47,310
B. Change in Unfilled Customer Orders	231,321	(264,157)
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(1,540,306)	(1,815,691)
D. Financing Sources that Fund Costs of Prior Periods	(28,306)	23,707
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0
F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0
G. Other - (Increases)/Decrease	390,870	(5,186)
H. Total Resources That Do Not Fund Net Costs of Operations	($2,010,107)	($2,014,017)
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES		
A. Depreciation and Amortization	$589,863	$580,218
B. Bad Debts Related to Uncollectable Non-Credit Reform Receivables	0	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	169,970	0
D. Loss of Disposition of Assets	28,145	0
E. Other - (Increases)/Decrease	0	0
F Total Costs That Do Not Require Resources	$787,978	$580,218
4. FINANCING SOURCES YET TO BE PROVIDED	$273,409	$96
5. NET COST OF OPERATIONS	$4,288,980	$3,657,514

See Notes 1 and 22.

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the U.S. Army Corps of Engineers Civil Works, as required by the Chief Financial Officers (CFO) Act, expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the U. S. Army Corps of Engineers (USACE) in accordance with the "Department of Defense Financial Management Regulation" ("DoDFMR"), the Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements" and to the extent possible, generally accepted accounting principles (GAAP). The USACE's financial statements are in addition to the financial reports also prepared by the USACE pursuant to OMB directives that are used to monitor and control the USACE's use of budgetary resources.

The Corps of Engineers financial statements are prepared from the consolidation of general ledger financial data reported from the Corps of Engineers Financial System (CEFMS) to the Corps of Engineers Enterprise Management Information System (CEEMIS).

General Ledger account balances have been validated to the year-end departmental budget execution and expenditure reports. The Corps of Engineers Funds with Treasury balances have been adjusted to agree with Treasury's balances in accordance with Treasury policy.

A more detailed explanation of these financial statements elements is provided in the applicable footnote.

1.B. Mission of the Reporting Entity

Some of the missions of the Corps of Engineers include maintaining navigation channels, reducing flooding, assisting during natural disasters and other emergencies and making waterways passable. The financial statements are presented on the accrual basis of accounting as required by federal financial accounting standards.

The asset accounts used to prepare the principal financial statements are categorized as entity/non-entity. Entity accounts consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that are held by an entity but are not available for use in the operations of the entity.

The Corps of Engineers Civil Works Program receives Federal funding through annual Energy and Water Development Appropriations Acts. Program funding is also received from non-Federal project sponsors who share in project costs according to formulas established by project authorization acts. A third source of funding comes through the Support for Others Program, which is conducted under reimbursable agreements with Federal agencies.

Entity Accounts:

General Funds

96X3112	Flood Control, Mississippi River and Tributaries
96X3121	General Investigations
96X3122	Construction, General
96X3123	Operation and Maintenance, General
963/73123	Operation and Maintenance, General (fiscal year)
96X3124	General Expenses

96953124	General Expenses (fiscal year)
96X3125	Flood Control and Coastal Emergencies
963/73125	Flood Control and Coastal Emergencies (fiscal year)
96X3126	Regulatory Program
96X3128	Washington Aqueduct Capital Improvements
96003129	Payment to the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund 96X3130
FUSRAP	

Revolving Funds

96X4902	Revolving Fund

Special Funds

96X5007	Special Recreation Use Fees
96X5066	Hydraulic Mining in California, Debris
96X5090	Payments to States, Flood Control Act of 1954
96X5125	Maintenance and Operation of Dams and Other Improvements of Navigable Waters
96X5483	San Gabriel Basin Restoration Fund

Trust Funds

96X8217	South Dakota Terrestrial Wildlife habitat Restoration Trust Fund
96X8333	Coastal Wetlands Restoration Trust Fund
96X8861	Inland Waterways Trust Fund
96X8862	Rivers and Harbors Contributed and Advance Funds
96X8868	Oil Spill Research

Transfer Funds

96 12X1105	State and Private Forestry, Forest Service
96 13X2050	Economic Development Administration
96 14X1039	Construction National Park Service
96 21X2020	OMA, American Samoa Projects
96 89X4045	Bonneville Power Administration
96 72 99/00	1021 Development Assistance, Agency for International Development
96 69X8083	Federal Aid Highways

Non-Entity:

Deposit Funds

96X6075	Withheld Allotment of Compensation for Payment of Employee Organization Dues
96X6094	Advances from the District of Columbia
96X6134	Amounts Withheld for Civilian Pay Allotments
96X6145	Technical Assistance, United States Dollars Advanced from Foreign Government
96X6302	Moneys Withheld from Contractors
96X6500	Advances without Orders from Non-Federal Sources
96X6501	Small Escrow Amounts
96X6999	Accounts Payable, Check Issue Overdrafts

Clearing Accounts

96F3875	Budget Clearing Account
96F3880	Unavailable Check Cancellations and Overpayments
96F3886	TSP

Receipt Accounts

960891	Miscellaneous fees for regulatory and judicial services, not otherwise classified
961099	Fines, Penalties, and forfeitures not otherwise classified
961435	General Fund Proprietary Interest, Not Otherwise Classified
963220	General Fund Proprietary Receipts. Not Otherwise Classified, All Other
965007	Special Recreation Use Fees
965066	Hydraulic Mining in California
965090	Receipts from leases of lands acquired for flood control, navigation, and allied purposes
965125	Licenses under Federal Power Act, Improvements of navigable water, maintenance and operation of dams, etc., (50%)

The Corps of Engineers is including Coastal Wetlands Restoration Trust Fund in the Financial Statements for FY 2001. The Trust Fund had not been included in previous years' financial statements. This account is funded by transfers from the Aquatic Resources Trust Fund. Department of Transportation is the lead agency for reporting the Aquatic Resources Trust Fund. The portion transferred to the Corps is not included in Department of Transportation's financial statements. Therefore, we have included amounts for the Coastal Wetlands Restoration Trust Fund in the Corps of Engineers financial statements.

1.C. Appropriations and Funds

The Civil Works Program receives Federal funding through annual Energy and Water Development Appropriations Acts. Program funding also come from non-Federal project sponsors who share in project costs according to formulas established by project authorization acts. A third source of funding comes through the Supports for Others Program, which is conducted under reimbursable agreements with Federal agencies.

In 1997, the Corps received borrowing authority from the Treasury for the next three years (1997 through 1999) to finance capital improvements to the Washington Aqueduct. Appropriation 96X3128 was established to record financial transactions for these capital improvements.

The Corps' appropriations and funds are divided into the general, working capital (revolving funds), trust, special and deposit funds. These appropriations and funds are used to fund and report how the resources have been used in the course of executing the Corps' missions.

General funds are used for financial transactions arising under congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and construction accounts.

Trust funds represent the receipt and expenditure of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

Special funds account for receipts of the government that are earmarked for a specific purpose.

Deposit funds generally are used to (1) hold assets for which the Corps is acting as an agent or a custodian or whose distribution awaits legal determination, or (2) account for unidentified remittances.

1.D. Basis of Accounting

Transactions are generally recorded on an accrual accounting basis and a budgetary basis as is required by GAAP. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds.

During fiscal year 1998, the Corps completed the deployment of the Corps of Engineers Financial Management System (CEFMS) to all its divisions, districts, centers, laboratories and field offices. CEFMS is a fully automated, comprehensive financial management system that simplifies the management of all aspects of the Corps business, including civil, military revolving funds and reimbursable activity. The general ledger chart of accounts in CEFMS was modified during fiscal year 2001 to be in compliance with the United States Government Standard General Ledger.

In addition, the Corps identified programs based upon the major appropriation groups provided by Congress.

1.E. Revenues and Other Financing Sources

Financing sources for general funds are provided primarily through congressional appropriations that are received on both an annual and a multiyear basis. When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. The Corps recognizes revenue as a result of costs incurred or services performed on behalf of other federal agencies and the public. Revenue is recognized when earned under the reimbursable order process.

1.F. Recognition of Expenses

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. Expenditures for capital and other long-term assets are not recognized as expenses until consumed in the Corps' operations. Net increases or decreases in unexpended appropriations are recognized as a change in the net position.

Certain expenses, such as annual and military leave earned but not taken, are financed in the period when earned.

1.G. Accounting for Intragovernmental Activities

The Corps, as an agency of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the Corps as though the agency was a stand-alone entity.

The Corps' proportionate share of public debt and related expenses of the federal government is not included. Debt issued by the federal government and the related costs are not apportioned to federal agencies. The Corps' financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through budget appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the Department of the Treasury does not allocate such interest costs to the benefiting agencies.

The Corps' civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement Systems (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The Corps funds a portion of the civilian and military pensions. Reporting civilian pension under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). The Corps recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by the OPM in the Statement of Net Cost; and recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

The Department reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Fund (MRF) financial statements. The Department recognizes the

actuarial liability for the military retirement health benefits in the Other Defense Organization column of the DoD Agency-wide statements.

To prepare reliable financial statements, transactions occurring between entities within the Department or between two or more federal agencies must be eliminated. For FYs 1999, 2000 and 2001, the Corps provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices and required the adjustment of the buyer-side records to recognize unrecorded costs and accounts payable. Intra-DoD intragovernmental balances were then eliminated.

The Department of the Treasury, Financial Management Service (FMS) is responsible for eliminating transactions between the Department and other federal agencies. In September 2000, the Department of the Treasury, FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The Corps implemented the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. In addition, the Corps implemented the policies and procedures contained in the "Intragovernmental Fiduciary Transactions Accounting Guide," as updated by the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide," for reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from United States (U.S.) Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DoL), and benefit program transactions with the OPM.

1.H. Transactions with Foreign Governments and International Organizations

Each year, the DoD Components sell defense articles and services to foreign governments and international organizations, primarily under the provisions of the "Arms Export Control Act of 1976." Under the provisions of the Act, the Department has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or less to the U. S. Government. Customers may be required to make payments in advance.

1.I. Funds with the U.S. Treasury

The Corps' financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the Defense Finance and Accounting Service (DFAS) and Military Services and the U. S. Army Corps of Engineers (USACE) disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic transfers, interagency transfers and deposits.

In addition, the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received and disbursements issued. The Department of the Treasury then records this information to the applicable Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the Corps recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled. Material disclosures are provided at note 3.

1.J. Foreign Currency

The Corps conducts operations overseas. Foreign Currency fluctuations require adjustment to the original obligation amount at the time of payment. These currency fluctuations are not separately identified.

1.K. Accounts Receivable

As presented in the Balance Sheet statement, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The Department does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies. Material disclosures are provided at note 5.

1.L. Loans Receivable. As Applicable.
Not Applicable to the Corps of Engineers, Civil Works Fund

1.M. Inventories and Related Property
Inventories are reported at approximate historical cost based on a moving weighted average based on actual cost divided by quantity. The method of valuation was misstated in previous years' statements.

The stock record accounting system in CEFMS is designed to allow the timely flow of supplies to the requesting customer while providing necessary controls to preclude over-stocking and zero balances. Controls also exist within the system to automatically generate requisitions in order to replenish stock to maintain authorized stockage levels. A perpetual record of inventory is maintained to allow for recomputation of the average unit cost, as new receipts are recorded.

Material disclosures related to inventory and related property are provided at Note 9.

1.N. Investments in U.S. Treasury Securities
Investments in U. S. Government securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other method if similar results are obtained. The Corps' intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities, because in the majority of cases, they are held to maturity. Amounts reported reflect the value of investments in the South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways and Harbor Maintenance Trust Fund accounts, which are managed by the Treasury Department. Material disclosures are provided at Note 4.

1.O. General Property, Plant and Equipment
General property, plant, and equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of 2 or more years, and when the acquisition cost equals 1$ for real property and $25,000 for personal property.

All General PP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

When it is in the best interest of the government, the Corps provides to contractors government property necessary to complete contract work. Such property is either owned or leased by the Corps, or purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E should be included in the value of General PP&E reported on the Corps' Balance Sheet. The Department recently completed a study that indicates that the value of General PP&E above the DoD capitalization threshold and not older than the DoD Standard Recovery Periods for depreciation, and that is presently in the possession of contractors, is not material to the Department's financial statements. Regardless, the Department is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the Corps currently reports only government property in the possession of contractors that is maintained in the Corps property systems.

To bring the Corps into compliance with federal accounting standards, the Department has issued new property accountability and reporting regulations that require the DoD Components to maintain, in DoD Component property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with federal accounting standards.

Material disclosures are provided at Note 10.

1.P Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances or prepayments and reported as an asset on the Balance Sheet. Advances and prepayments are recognized as expenditures and expenses when the related goods and services are received.

1.Q. Leases

Generally, lease payments are for the rental of equipment, space, and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease) and the value equals or exceeds the current DoD capitalization threshold, the applicable asset and liability are recorded. The amount recorded is the lesser of the present value of the rental and other lease payments during the lease term, excluding that portion of the payments representing executory costs paid to the lessor, or the asset's fair value. Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and recorded as expenses as payments are made over the lease terms.

1.R. Other Assets

The Corps conducts business with commercial contractors under two primary types of contracts-fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Corps provides financing payments. One type of financing payment that the Corps makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the General PP&E line and in note 10, General PP&E, Net. In addition, based on the provision of the Federal Acquisition Regulation, the Corps makes financing payments under fixed price contracts that are not based on a percentage of completion. The Corps reports these financing payments as advances or prepayments in the "Other Assets" line item. The Corps treats these payments as advances or prepayments because the Corps becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Corps is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Corps for the full amount of the advance.

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the Corps. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when a past event or exchange transaction has occurred, a future loss is probable and the amount of loss can be reasonably estimated. Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The Corps' loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as ship and vehicle accidents, property or environmental damages, and contract disputes.

1.T. Accrued Leave

Civilian annual leave and military leave are accrued as earned and the accrued amounts are reduced as leave is taken. The balances for annual and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken.

1.U. Net Position

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which legal liabilities for payments have not been incurred.

Cumulative results of operations represents the difference, since inception of an activity, between expenses and losses and financing sources including appropriations, revenue, and gains. Beginning with FY 1998, this included the cumulative amount of donations and transfers of assets in and out without reimbursement.

1.V. Treaties for Use of Foreign Bases

The Corps has no existing treaties for use of foreign bases.

1.W. Comparative Data

Beginning in FY 2001, the U.S. Army Corps of Engineers will present the current and previous year's financial data for comparative purposes. This data will be presented in the financial statements, as well as in the notes to the principal statements.

1.X. Unexpended Obligations

The Corps records obligations for goods and services that have been ordered but not yet received. No liability for payment has been established in the financial statements because goods/services have yet to be delivered.

Note 2. Assets

As of September 30, (Amounts in thousands)	2001 Nonentity	2001 Entity	2001 Total	2000
1. Intragovernmental Assets:				
A. Fund Balance with Treasury	$22,832	$2,515,158	$2,537,990	$2,404,315
B. Investments	0	2,255,539	2,255,539	2,075,561
C. Accounts Receivable	1	476,540	476,541	151,301
D. Other Assets	0	0	0	0
E. Total Intragovernmental Assets	$22,833	$5,247,237	$5,270,070	$4,631,177
2. Nonfederal Assets:				
A. Cash and Other Monetary Assets	$3,990	$0	$3,990	$965
B. Accounts Receivable	933,378	94,910	1,028,288	1,050,363
C. Loans Receivable	0	0	0	0
D. Inventory & Related Property	0	54,719	54,719	59,469
E. General Property, Plant and Equipment	0	34,818,281	34,818,281	34,538,092
F. Other Assets	0	16,190	16,190	79,891
G. Total Nonfederal Assets	$937,368	$34,984,100	$35,921,468	$35,728,780
3. Total Assets:	$960,201	$40,231,337	$41,191,538	$40,359,957

4. Other Information:

Line 1A - Federal nonentity Fund Balance with Treasury consists of amounts collected into deposit, suspense and clearing accounts.Line 2B - Nonfederal nonentity accounts receivable represents all current and non-current receivables due from non-federal sources, net of allowance for estimated uncollectible accounts. Other non-entity receivables include $1 billion in long-term receivables due from state and local municipalities for water storage contracts, $7.9 million in current receivables due from the state and local municipalities for water storage, $.4 million in accrued interest receivable with the water storage contracts, $1.7 million in claims receivable, and $1.7 million in long-term receivable for hydraulic mining. The additional $.6 million represents amount due from the leasing of land acquired for flood control purposes. The allowance for doubtful accounts totals $1.7 million. Receipts are deposited with the Department of Treasury and are, therefore, identified as nonentity.Investments net of premiums and discounts increased by $180 million or 9% during FY01. Eighty-five percent of the increase was from the Harbor Maintenance Trust Fund. Investments net of premiums and discounts increased by $151 million. This increase was funded in part by an increase in receipts of $50 million and a decrease in transfers out to other government agencies of $42 million. The increase in receipts is primarily from excise taxes on imports and exports. Investment discounts also decreased by $23 million of 45% because more

funds from maturing treasury bills were invested in one-day securities. A review of monthly investment activity shows that more funds were available for investment in September. The average monthly transfer to the Corps of Engineers was $54 million in FY01 but the actual September transfer to the Corps was $17 million.Line 2F - Other Entity Assets includes $7 million in land and $55 million in structures and facilities awaiting disposition or sale, and $10 million in cost for cultural resources preservation.

Note 3. Fund Balance with Treasury

As of September 30, (Amounts in thousands)	2001	2000
1. Fund Balances:		
A. Appropriated Funds	$1,351,271	$1,230,972
B. Revolving Funds	849,577	855,237
C. Trust Funds	11,129	919
D. Other Fund Types	326,013	317,188
E. Total Fund Balances	$2,537,990	$2,404,316
2. Fund Balances Per Treasury Versus Agency:		
A. Fund Balance per Treasury	$2,532,474	$2,404,93
B. Fund Balance per USACE	2,537,990	2,404,316
C. Reconciling Amount	($5,516)	$620

3. Explanation of Reconciliation Amount:

Fund Balance per USACE includes $6,102,340.15 and $533.57 cash reported by Treasury for Inland Waterways and Harbor Maintenance Trust Funds, for which the Corps is identified as the lead agency for reporting. Funds Balance per USACE also includes ($591,652.29) Disbursing Officer's Cash transactions during FY2001.

Fund Balance per USACE excludes ($4.7) thousand shown on the TFS 6654 in account 96F3880. This amount was posted by Treasury and not yet recorded in the USACE balance.

4. Other Information Related to Fund Balance with Treasury:

Receipts in the amount of $133.6 million that were returned to Treasury during fiscal year 2001 are not reflected in these financial statements.

Fund Balance per USACE includes $11.7 million in transfer appropriations that were not reported by the Corps on the FMS 2108. Those transfer appropriations are reported by the parent agencies on the FMS 2108. The parent agencies are Department of Energy, Department of Transportation, and Department of Commerce. However, these appropriations must be included in the financial statements of the receiving entity. Therefore, we have included financial data for transfer appropriations in our financial statements for the period ending September 30, 2001.

Fund Balance Per Treasury includes funds available in appropriation 96X6094 in the amount of $7.9 million. This account was established to record operating costs at the Washington Aqueduct which are reimbursed by local municipalities. Since funding is used in operations, the balance is included with entity assets.

Line 1D - Other Fund types consists of $23.4million in deposit suspense and clearing accounts that are not available to finance the Corps' activities, $4.5 million in borrowing authority, $299 million in contributed funds, and (.6) million in Disbursing Officer's Cash transactions.

Note 4. Investments

As of September 30, (Amounts in thousands)	2001 Cost	Amortization Method	Amortized (Premium/ Discount)	Investments, Net	Market Value Disclosure	2000 Investments, Net
1. Intragovernmental Securities:						
A. Marketable	$0		$0	$0	$0	$2,070,889
B. Non-Marketable, Par Value	0		0	0	0	0
C. Non-Marketable, Market-Based	2,252,093	SL	(1,247)	2,250,846	2,250,8460	0
D. Subtotal	$2,252,093		($1,247)	$2,250,846	$2,250,846	$2,070,889
E. Accrued Interest	$4,693			$4,693	$4,693	$4,672
F. Total Intragovernmental Securities	$2,256,786		($1,247)	$2,255,539	$2,255,539	$2,075,561

2. Other Information:

Investments for the Inland Waterways, Harbor Maintenance, and South Dakota Terrestrial Wildlife Habitat Restoration Trust Funds are reported by the Treasury and included in U.S. Army Corps of Engineers' Financial Statements. Investment amounts include $408 million in Inland Waterways, $1800 million in Harbor Maintenance and $32 million in the South Dakota Terrestrial Wildlife account.

It is the intent to hold investments until maturity unless they are needed to sustain operations. Provisions are not made for unrealized gains or losses on these securities. The Trust Funds use the same method that conforms to the prevailing practice in the financial community to determine the amortized book value of investments currently held and the related effective interest yield on investments. These calculated yields agree with yields published in the security tables of U. S. Treasury securities.

These types of investments are recorded at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. Investment decisions for these funds are made by the managing entity, in this case the Department of the Treasury.

Investments were incorrectly reported as marketable in FY 2000. Upon confirmation from Treasury, investments are now reported as Non-Marketable, Market-Based.

Note 5. Accounts Receivable

As of September 30, (Amounts in thousands)	2001 Gross Amount Due	Allowance for Estimated Collectibles	Accounts Receivable, Net	2000 Accounts Receivable, Net
1. Intragovernmental Receivables:	$476,541	N/A	$476,541	$151,301
2. Nonfederal Receivables (From the Public):	$1,029,978	($1,690)	$1,028,288	$1,050,363
3. Total Accounts Receivable:	$1,506,519	($1,690)	$1,504,829	$1,201,664

4. Allowance method:

The method of calculating the allowance for estimated uncollectibles is based on the aging of receivables and application of pre-determined percentages. Average percentages were calculated based on write-off to outstanding public accounts receivable during prior fiscal years.The Code of Federal Regulations (4CFR 101) prohibits the write-off of receivables from another federal agency. As such, no allowance for estimated uncollectible amounts is recognized for these receivables.

5. Other information:

Accounts receivable represents all current receivables due from federal and non-federal sources, net of allowance for estimated uncollectible accounts. The amount of public receivables over 180 days old is

$129.1 million. Receivables with the public include $24.3 million in accrued interest on delinquent receivables. No public receivables have been submitted to the Department of Justice for opinion. The amount of intragovernmental receivables over 180 days old is $18.1 million. No intragovernmental receivables have been submitted to the General Accounting office for opinion. The Corps was able to compare its accounts receivable balances with the accounts payable balances of its intragovernmental trading partners. No material differences were identified.

FY 2001 amount includes $1 billion in long-term accounts receivable associated with water storage contracts.

The amount of Public Receivables on the Report on Receivables Due from Public is $1,346 million. The difference is attributed to $154 million adjustment for long-term receivables, which was already reflected in the beginning balance, and therefore included in the total twice on the report, $ 169.7 million in duplicate receivables included on the report, $7.7 million in current portion of long-term receivables not included on the report, $1.7 million allowance for estimated uncollectibles not included on the report, and $14 thousand for work in progress amounts not included on the receivables report.

The Allowance for Estimated uncollectibles increased $.6 million from FY 2000. This increase is attributed to a larger number of past due public receivables and an increase in the amount of receivables in the age category that has a higher allowance percentage.

Note 6. Other Assets

As of September 30, (Amounts in thousands)	2001	2000
1. Intragovernmental Other Assets:		
A. Advances and Prepayment	$0	$0
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	$0	$0
2. Nonfederal Other Assets:		
A. Outstanding Contract Financing Payments	$0	$0
B. Other Assets (With the Public)	16,190	79,891
C. Total Nonfederal Other Assets	$16,190	$79,891
3. Total Other Assets:	$16,190	$79,891

4. Other Information Related to Other Assets:

Line 2B - Other Assets (With the Public) include $10 million in cost for archaeological and cultural resource preservation.

Note 7. Cash and Other Monetary Assets

As of September 30, (Amounts in thousands)	2001	2000
1. Cash	$622	$819
2. Foreign Currency (non-purchased)	3,368	146
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	$3,990	$965

5. Other Information Pertaining to Entity Cash & Other Monetary Assets:

Line 1 - This amount consists solely of Disbursing Officers' Cash and reconciles to Note 15A Line 1.E and the Statement of Accountability.

Line 2 - The Corps translates foreign currency to U. S. dollars utilizing the Department of the Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U. S.

Government's acquisition of foreign currency for its official disbursements and accommodation of exchange transactions. The increase of $3.2 million was incorrectly reported by Japan District as entirely Civil Works. The amount includes the Military portion of foreign currency and will be corrected in FY 2002.

Note 8. A. Direct Loan and/or Loan Guarantee Programs

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.B. Direct Loans Obligated After FY 1991

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.C. Total Amount of Direct Loans Disbursed

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.D. Subsidy Expense for Post-1991 Direct Loans

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.E. Subsidy Rate for Direct Loans

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.F Schedule for Reconciling Subsidy Cost Allowance Balances for Post-1991 Direct Loans

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.G. Defaulted Guaranteed loans from Post-1991 Guarantees

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.H. Guaranteed Loans Outstanding

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.I. Liability for Post-1991 Loan Guarantees, Present Value

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.J. Subsidy Expense for Post-1991 Loan Guarantees

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.K. Subsidy Rate for Loan Guarantees

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.L. Schedule for Reconciling Loan Guarantee Liability Balances for Post-1991 Loan Guarantees

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.M. Administrative Expense

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 9. Inventory and Related Property

As of September 30, (Amounts in thousands)	2001	2000
1. Inventory, Net (Note 9.A.)	$54,420	$59,287
2. Operating Materials & Supplies, Net (Note 9.B.)	299	182
3. Stockpile Materials, Net (Note 9.C.)	0	0
4. Total	$54,719	$59,469

Note 9.A. Inventory, Net

As of September 30, (Amounts in thousands)	2001 Inventory Gross Value	2001 Revaluation Allowance	2001 Inventory, Net	2000 Inventory, Net	Valuation Method
1. Inventory Categories:					
A. Available and Purchased for Resale	$95,225	($47,882)	$47,343	$53,191	
B. Held for Repair	0	0	0	0	
C. Excess, Obsolete, and Unserviceable	55	(55)	0	8	NRV
D. Raw Materials	0	0	0	0	
E. Work in Process	7,077	0	7,077	6,088	
F. Total	$102,357	($47,937)	$54,420	$59,287	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses holding gains and losses
NRV = Net Realizable Value
O = Other
SP = Standard Price
AC = Actual Cost

2. Restrictions of Inventory Use, Sale, or Disposition:

Inventory may be sold to foreign, state and local governments, private parties and contractors in accordance with current policies and guidance or at the direction of the U. S. President. Otherwise, there are no restrictions on the use, sale or disposition of inventory.

3. Other Information:

The inventory valuation method is based on a moving weighted average based on actual cost divided by quantity. A perpetual record of inventory is maintained to allow for recomputation of the average unit cost as new receipts are recorded. The method of valuation was misstated in previous years' statements as Latest Acquisition Cost.

Inventory is tangible personal property that is (1) held for sale, (2) in the process of production for sale or (3) to be consumed in the production of goods for sale or in the provision of services for a fee. "Inventory held for Current Sale" is that expected to be sold in the normal course of operations. "Excess Inventory" is that which exceeds the demand expected in the normal course of operations and which does not meet management's criteria to be held in reserve for future sale. "Obsolete Inventory" is that which no longer is needed due to changes in technology, laws, customs or operations. "Unserviceable Inventory" is damaged inventory that is more economical to dispose of than to repair.

The inventory data reported on the financial statements is derived from the Corps of Engineers Financial Management System (CEFMS). CEFMS is a comprehensive system that is designed to capture and maintain historical cost data necessary to fully comply with the Statement of Federal Financial Accounting Standards Number 3, "Accounting for Inventory and Related Property.

Line 1C - Excess, Obsolete, and Unserviceable. Revaluation is determined using 1.9% of the gross as the net realizable value, based in DFAS memorandum DFAS-DAC, dated 23 August 2001, subject: FY 2002 Supply Management Inventory Adjustment Factors, signed by Robert McNamara. The memo states, in part, "items stratified as potential reutilization/disposal stock and items no longer economically repairable is revised to 1.9 percent of the LAC for FY 2001 yearend reporting."

Note 9.B. Operating Materials and Supplies, Net

As of September 30, (Amounts in thousands)	2001 OM&S Amount	2001 Revaluation Allowance	2001 OM&S, Net	2000 OM&S, Net	Valuation Method
1. OM&S Categories:					
A. Held for Use	$299	$0	$299	$182	
B. Held for Repair	0	0	0	0	
C. Excess, Obsolete, and Unserviceable	0	0	0	0	
D. Total	$299	$0	$299	$182	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses holding gains and losses
NRV = Net Realizable Value
O = Other
SP = Standard Price
AC = Actual Cost

2. Restrictions on Operating Materials & Supplies:

There are no restrictions on operating materials and supplies. The valuation method is based on a moving weighted averaged based on actual cost divided by quantity. The valuation method was misstated in previous years' statements .

3. Other Information:

Note 9.C. Stockpile Materials, Net

As of September 30, (Amounts in thousands)	2001 Stockpile Materials Amount	2001 Allowance for Gains (Losses)	2001 Stockpile Materials,Net	2000 Stockpile Materials, Net	Valuation Method
1. Stockpile Materials Categories:					
A. Held for Sale	$0	$0	$0	$0	
B. Held in Reserve for Future Sale	0	0	0	0	
C. Total Stockpile Materials, Net	$0	$0	$0	$0	

Legend for Valuation Methods:
Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses holding gains and losses
NRV = Net Realizable Value
O = Other
SP = Standard Price
AC = Actual Cost

2. Restrictions on Stockpile Materials:

3. Other Information:

Note 10. General PP&E, Net

As of September 30, (Amounts in thousands)	Depreciation/ Amortization Method	Service Life	2001 Acquisition Value	(Accumulated) Depreciation Amortization)	Net Book Value	2000 Prior FY Net Book Value
1. Major Asset Classes:						
A. Land	N/A	N/A	$7,876,387	N/A	$7,876,387	$7,801,562
B. Buildings, Structures, and Facilities	S/L	20-100	29,755,018	($12,526,962)	17,228,056	18,324,584
C. Leasehold Improvements	S/L	5-lease term	1,334	(867)	467	589
D. Software	S/L	2-10	54,567	(18,765)	35,802	34,708
E. Equipment	S/L	5-100	1,142,292	(532,380)	609,912	610,325
F. Assets Under Capital Lease[1]	S/L	lease term	0	0	0	0
G. Construction-in-Progress	N/A	N/A	9,043,763	N/A	9,043,763	7,753,407
H. Other			23,894	0	23,894	12,916
I. Total General PP&E			$47,897,255	($13,078,974)	$34,818,281	$34,538,091

[1]Note 15.B for additional information on Capital Leases

Legend for Valuation Methods:
S/L = Straight Line N/A = Not Applicable

2. Other Information:
Line 1A - Land. $2 billion previously identified as intangible assets has been reclassified as land. These assets are comprised of historical costs associated with the acquisition of land in conjunction with power projects. Costs were originally classified as intangible assets in order to comply with Federal Energy Regulatory Commission guidelines on cost recovery. However, the decision was made that these costs were improperly classified in accordance with SFFAS No. 6, "Accounting for Property, Plant and Equipment", as they were part of the initial acquisitions cost of the land and should have been classified as such. We have also made a reversing entry for current year amortization in our fiscal year 2001 statements to properly reflect the effect of the transfer into land (category 00) where accumulated depreciation is inappropriate.

Line 1 B - Buildings, Structures, and Facilities. An adjustment of $401.7 million was made to the Buildings and Structures Net Book Value due to subsequent audit findings that acquisition value had been overstated and accumulated depreciation had been understated.

Line 1 G - Construction-in-Progress. The increase of $1.3 billion is attributed to contract progress payments (ENG Form 93).

Line 1H - Other. Other assets represent property awaiting disposition or sale.

The service lives for our multiple purpose project assets are derived from guidance provided by the Federal Energy Regulatory Commission based on industry standards.

Note 10.A. Assets Under Capital Lease

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30, (Amounts in thousands)	2001 Covered by Budgetary Resources	2001 Not Covered by by Budgetary Resources	2001 Total	2000
1. Intragovernmental Liabilities:				
A. Accounts Payable	$92,731	$0	$92,731	$87,543
B. Debt	692	29,820	30,512	18,212
C. Environmental Liabilities	0	0	0	0
D. Other	31,616	1,135,701	1,167,317	1,166,330
E. Total Intragovernmental Liabilities	$125,039	$1,165,521	$1,290,560	$1,272,085
2. Nonfederal Liabilities:				
A. Accounts Payable	$505,326	$0	$505,326	$585,937
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0	0	0	0
C. Environmental Liabilities	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Other Liabilities	543,018	33,504	576,522	497,833
F. Total Nonfederal Liabilities	$1,048,344	$33,504	$1,081,848	$1,083,770
3. Total Liabilities:	$1,173,383	$1,199,025	$2,372,408	$2,355,855

4. Other Information:

Line 1D - Intragovernmental other unfunded liabilities includes $35 million to offset interest and accounts receivable which, when collected, will be returned to the Treasury. Judgment fund liabilities in the amount of $103.61 million and the FY 2001 Workmen's Compensation liabilities in the amount of $43 million are also recognized as unfunded. Also included is the deferred credit liability in the amount of $1.1 billion representing future revenue from long term receivables recorded for water storage contracts.

Line 2B - The Actuarial Liability for Federal Employee's Compensation Act (FECA) is not included. The Department of Labor is unable to furnish a figure for FECA liability specific to the Corps of Engineers.

Line 2E - Other Liabilities (Covered) includes $335.8 million in accrued funded payroll and leave, $43 million in contract holdbacks, $17.8 million in employer contributions and payroll taxes, $77.5 million in contributed funds, mainly from state and local municipalities for work to be done on a cost-share

basis, $41.8 million is maintained to fund contingent liabilities arising from casualty losses, $27 million in deposit fund and clearing account liabilities. Other Liabilities (Not Covered) includes $44.7 million in offsets to receivables that will be returned to Treasury when collected, $1.7 million in deferred credit for long term receivable for hydraulic mining, and .6 million in Disbursing Officer's cash.

Note 12. Accounts Payable

As of September 30, (Amounts in thousands)	2001 Accounts Payable	2001 Interest, Penalties, and Administrative Fees	2001 Total	2000 Total
1. Intragovernmental Payables:	$92,731	N/A	$92,731	$87,543
2. Nonfederal Payables (to the Public):	$505,326	$0	$505,326	$585,937
3. Total	$598,057	$0	$598,057	$673,480

4. Other Information:

The Corps has no known delinquent accounts payable, therefore no amount is reported for interest, penalties, and administrative fees. During FY 2001, the Corps paid $497 thousand in interest, from Civil Works appropriations, on payments of $3.5 billion subject to the Prompt Payment Act (.014%).

An adjustment of $161.1 million was made to Nonfederal Payables due to subsequent audit findings that accruals had been recorded in the incorrect period.

Note 13. Debt

As of September 30 (Amounts in thousands)	2001 Beginning Balance	2001 Net Borrowings	2001 Ending Balance	2000 Ending Balance
1. Public Debt:				
A. Held by Government Accounts	N/A	N/A	N/A	N/A
B. Held by the Public	N/A	N/A	N/A	N/A
C. Total Public Debt	N/A	N/A	N/A	N/A
2. Agency Debt:				
A. Debt to the Treasury	$18,490	$12,022	$30,512	$18,212
B. Debt to the Federal Financing Bank	0	0	0	0
C. Debt to Other Federal Agencies	0	0	0	0
D. Total Agency Debt	$18,490	$12,022	$30,512	$18,212
3. Total Debt:	$18,490	$12,022	$30,512	$18,212
4. Classification of Debt:				
A. Intragovernmental Debt			$30,512	$18,212
B. Nonfederal Debt			N/A	N/A
C. Total Debt			$30,512	$18,212

5. Other Information:

During fiscal years 1997, 1998, and 1999, the Corps of Engineers executed three promissory notes totaling $75 million with the Department of the Treasury. Funds provided were used for capital improvements to the Washington Aqueduct. Funding to repay the debt is provided by Arlington County and Falls Church, Virginia, and the District of Columbia. Actual drawdown of funds has been made from the Treasury in the amount of $63.1 million. Principal repayments as of September 30, 2001 total $33.3 million. $692,425.43 represents accrued interest payable at September 30, 2001.

During fiscal year 2001, actual drawdown of funds from the Treasury totals $20.2 million. Principal repayments during fiscal year 2001 total $8 million.

Note 14. Environmental Liabilities and Environmental Disposal Liabilities

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 15.A. Other Liabilities

As of September 30, (Amounts in thousands)	2001 Current Liability	2001 Noncurrent Liability	2001 Total	2000 Total
1. Intragovernmental:				
A. Advances from Others	$21,490	$0	$21,490	$24,072
B. Deferred Credits	0	991,343	991,343	1,015,762
C. Deposit Funds and Suspense Account Liabilities	0	0	0	0
D. Resources Payable to Treasury	0	0	0	0
E. Disbursing Officer Cash	649	0	649	965
F. Nonenvironmental Disposal Liabilities:				
(1) ND PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
G. Accounts Payable-- Cancelled Appropriations	0	0	0	0
H. Judgement Fund Liabilities	103,618	0	103,618	12,637
I. FECA Reimbursement to the Department of Labor	16,624	23,554	40,178	43,601
J. Capital Lease Liability	0	0	0	0
K. Other Liabilities	10,039	0	10,039	69,293
L. Total Intragovernmental Other Liabilities	$152,420	$1,014,897	$1,167,317	$1,166,330
2. Nonfederal:				
A. Accrued Funded Payroll and Benefits	$353,707	$0	$353,707	$322,324
B. Advances from Other	77,527	0	77,527	74,670
C. Deferred Credits	6	0	6	0
D. Loan Guarantee Liability	0	0	0	0
E. Liability for Subsidy Related to Undisbursed Loans	0	0	0	0
F. Deposit Funds and Suspense Accounts	27,010	0	27,010	23,199
G. Temporary Early Retirement Authority	0	0	0	0
H. Nonenvironmental Disposal Liabilities:				
(1) ND PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
I. Accounts Payable--Cancelled Appropriations	0	0	0	0
J. Accrued Unfunded Annual Leave	0	0	0	0
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0	0
L. Capital Lease Liability	0	0	0	0
M. Other Liabilities	118,272	0	118,272	77,641
N. Total Nonfederal Other Liabilities	$576,522	$0	$576,522	$497,834
3. Total Other Liabilities:	$728,942	$1,014,897	$1,743,839	$1,664,164

4. Other Information Pertaining to Other Liabilities:

Line 1B - Deferred credits represent future revenue from long term receivables recorded for water storage contracts and hydraulic mining.

Line 1H - Judgment Fund Liabilities. The Corps of Engineers Civil Works Directorate has recognized 22 unfunded liabilities arising from Judgment Fund Contract Disputes Act settlement in accordance with the interpretation of Federal Financial Accounting Standards Number 2, Accounting for Treasury Judgment Fund Transactions. The Corps included $80.07 million in the FY03 Energy and Water Development Act Budget Submission. Congress has included specific language instructing the Corps not to use appropriated funds to repay Judgment Fund liabilities. The Corps did not request the entire $103.61 million in the FY03 budget due to the fact that we have several Judgment Fund liabilities valued at $23.54 million which were associated with reimbursable work for local sponsors and these customers need to find appropriate funding. Until this is accomplished, the Corps will report these liabilities.

Liabilities for outstanding Judgment Fund claims include information for prior years provided by our POC at Army Headquarters. This information did not include all outstanding judgment fund claims paid during this fiscal year. Based on information from the Judgment Fund's website, treasury paid claims totaling $10 million for the Corps in FY01. We determined that this amount included $4.5 million for military claims based on information provided by Army Headquarters. We could not determine if any portion of the remaining amount, $5.5 million, applied to civil works projects due to a lack of information.

Line 1I - FECA Reimbursement to the Department of Labor. Workman's Compensation costs reflect cost incurred for income lost and medical costs for federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The costs are paid from the Federal Employees' Compensation Act (FECA). Fiscal year 2002 costs are reflected as a non-current liability.

Line 1K - Other Liabilities. This includes $.5 million for Uncollected Custodial Liability, $9.5 million in Employer Contributions and Payroll Taxes, of which $.28 million is the Voluntary Separation Incentive Program (VSIP) liability.

Line 2B - Advances from Others. $77.5 million is for contributed funds, mainly from state and local municipalities for work to be done on a cost-share basis.

Line 2M - Other Liabilities. $41.8 million is maintained to fund contingent liabilities arising from casualty losses. Other public current liabilities include $43 million in contract holdbacks on construction-in-progress payments and $44.7 million in uncollected liability.

Note 15.B. Capital Lease Liability

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 16. Commitments and Contingencies

Proprietary contingencies are commonly referred to as contingent liabilities. The Corps of Engineers has twenty-eight cases, in which the relief requested is $5.35 million or more, that are pending litigation. The Corps' Legal Counsel is of the opinion that it is "reasonably possible" that the outcome of the litigation will result in a loss. Since these cases fail to satisfy the criteria to record a contingent liability in accordance with the Federal Financial Accounting Standard Number 5, Accounting for Liabilities of the Federal Government, no amount is included in our financial statements.

Note 17. Military Retirement Benefits and Other Employment Related Actuarial Liabilities

The Actuarial Liability for Federal Employees' Compensation Act (FECA) is not included. The Department of Labor is unable to furnish a figure for FECA liability specific to the Corps of Engineers.

Note 18. Unexpended Appropriations

As of September 30, (Amounts in Thousands)	2001	2000
1. Unexpended Appropriations:		
A. Unobligated, Available	$747,093	$663,784
B. Unobligated, Unavailable	489	3,481
C. Unexpended Obligations	467,319	337,374
D. Total Unexpended Appropriations	$1,214,901	$1,004,639

2. Other Information Pertaining to Unexpended Appropriations:

Unexpended appropriations are the amount of budget authority remaining for disbursement against current or future obligations. Unobligated balances are classified as available or unavailable. Unobligated balances associated with appropriations expiring at fiscal year end remain available only for obligation adjustments until the account is closed. Unexpended obligations represent those goods and services that have not yet been received/performed.

Note 19.A. General Disclosures Related to the Statement of Net Cost

The amounts presented in the Statement of Net Cost reflect accrued costs. The Corps of Engineers records transactions on an accrual basis as required by the Statement of Federal Financial Accounting Standards.

Note 19.B. Gross Cost and Earned Revenue by Budget Functional Classification

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 19.C. Gross Cost to Generate Intragovernmental Revenue and Earned Revenue (Transactions with Other Federal-Non-DoD-Entities) by Budget Functional Classification

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 19.D. Imputed Expenses

As of September 30, (Amount in thousands)	2001	2000
1. Civilian (e.g.,CSRS/FERS) Retirement	$80,620	$72,438
2. Civilian Health	99,996	93,608
3. Civilian Life Insurance	344	418
4. Military Retirement Pension	0	0
5. Military Retirement Health	0	0
6. Judgment Fund/Litigation	30,635	0
7. Total Imputed Expenses	$211,595	$166,464

OPM administers three earned benefit programs for civilian Federal employees: the Retirement Program - comprised of the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS); the Federal Employees Health Benefits program (FEHB); and the Federal Employees Group Life Insurance Program (FEGLI).

Imputed financing in the amount of $181 million was recorded for retirement, health and life insurance benefits for civilian Federal employees. Imputed financing also included $5.1 million for power plant fees paid to states as compensation for "lost" property taxes on federally leased land leased to others and $25.5 million for Judgment Fund liabilities for which the Corps is not responsible for reimbursement to the Department of the Treasury. This information was obtained from Treasury's Judgment Fund website.

Note 19.E. Benefit Program Expenses
Not Applicable to the Corps of Engineers, Civil Works Fund

Note 19.F. Exchange Revenue
Goods and services provided through reimbursable programs to the public or another U. S. Government entity (Intra-Corps, Intra-DoD, or other federal government entity) are provided at cost. Such reimbursable sales are reported as earned revenues. Costs are equal to the amount reported as earned.

Note 19.G. Amounts for Foreign Military Sales (FMS) Program Procurements from Contractors
Not Applicable to the Corps of Engineers, Civil Works Fund

Note 19.H. Stewardship Assets
Not Applicable to the Corps of Engineers, Civil Works Fund

Note 19.I. Intragovernmental Revenue and Expense
The Corps of Engineers Financial Management System (CEFMS) captures trading partner data at the transaction level in a manner that facilitates trading partner reconciliation and elimination entries.

Note 19.J. Suborganization Program Costs
Not Applicable to the Corps of Engineers, Civil Works Fund

Note 20. Disclosures Related to the Statement of Changes in Net Position

As of September 30, (Amounts in thousands)	2001	2000
1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:		
A. Changes in Accounting Standards	$0	$0
B. Errors and Omissions in Prior Year Accounting Reports	(846,197)	360,236
C. Other Prior Period Adjustments	67	0
D. Total Prior Period Adjustments	($846,130)	$360,236
2. Imputed Financing:		
A. Civilian CSRS/FERS Retirement	$80,620	$72,438
B. Civilian Health	99,996	93,608
C. Civilian Life Insurance	344	418
D. Military Retirement Pension	0	0
E. Military Retirement Health	0	0
F. Judgement Fund/Litigation	30,635	0
G. Total Imputed Financing	$211,595	$166,464

3. Other Information:

Taxes and Other Nonexchange Revenue include $834.3 million in tax collections deposited into the trust fund accounts. $112.7 million was derived from excise taxes and was deposited into the Inland Waterways Trust Fund. $721.6 million was collected and deposited into The Harbor Maintenance Trust Fund reported tax collections totaling $721.6 million. These taxes were derived from:

Tax on Domestics	$39.3 million
Tax on Exports	2.5 million
Tax on Foreign Trade	86.3 million
Tax on Imports	583.2 million
Tax on Passengers	10.3 million

Transfers in include $23 million transferred into the San Gabriel Restoration Fund and $10 million transferred into the South Dakota Terrestrial Wildlife Restoration Trust Fund. Also included is $288 million in budget authority which was transferred into the Coastal Wetlands Restoration Trust Fund from the Aquatic Resources Trust Fund. Transfers in also include $9.6 million from the Bonneville Power Administration.

Transfers out to other government agencies include $7.3 million to the Department of the Interior, $3 million to the Customs Department, $13 million to the Saint Lawrence Seaway Development Corporation, $40 thousand to the Department of Transportation, $22 thousand to the Tennessee Valley Authority, $59 thousand to General Services Administration and $350.7 thousand to the Department of Defense.

Prior period adjustments were made as follows:

A $20 million increase was made to recognize a receivable prior to the SF 1151 Nonexpenditure Transfer Authorization of Inland Waterways authority. In contrast with other Federal nonexpenditure transfers, transfers between trust fund corpus accounts and agency allocation accounts require different accounting and reporting treatment. To maintain sound cash management principles, funds remain invested until needed for disbursement to maximize the interest earned on investments. Since the Treasury's Bureau of Public Debt (PBD) performs the investment function for the Inland Waterways Trust Fund and the Corps of Engineers performs the obligation and disbursement function, a budgetary mechanism is needed to transfer the budget authority prior to actually transferring the funds. This mechanism results in a receivable recorded by the Corps and a payable recorded by PBD. The guidance for recording this authority is contained in the Federal Trust Fund Accounting Guide, Scenario V, Treasury-Managed Trust Fund Allocation Accounts.

A $36 million increase was made to record the results of operations in the Coastal Wetlands Restoration Trust Fund account. This account is a transfer out of the Aquatic Resources trust fund and has not previously been reported by the USACE. Therefore, the adjustment was necessary to establish the beginning balance in results of operations for prior fiscal years.

A $17 million decrease was recorded in the trust fund accounts to transfer amounts previously reported as unexpended into results of operations. The adjustment was based upon guidance contained in the Federal Trust Fund Accounting Guide released by the Department of the Treasury in June 2001. Since trust funds do not receive Treasury appropriation warrants but consist predominantly of tax receipts, customs duties, fines and penalties, these funds should not use the account to record Unexpended Appropriations.

A $57 million decrease was recorded to adjust the value of land, buildings and structures awaiting disposal. Of this amount, $51 million was erroneously reflected as assets awaiting disposal at the Los Angeles District. Costs that should have been expensed were incorrectly capitalized during conversion of automated financial systems in fiscal year 1998. The remaining $6 million adjustment was made to reflect assets awaiting disposal at the net realizable value. Upon retirement of an asset, CEFMS records the asset at its net book value. In accordance with OSD policy, the book value has been restated to net realizable value.

A $317 million decrease to results of operations was recorded to recognize previously unrecorded depreciation expense. An additional audit recommended adjustment was made for $358 million due to understatements of accumulated depreciation for prior periods.

A $44 million decrease was made as a result of an audit finding that the value of buildings and structures was overstated.

Cost transfers to/from Construction-in-Progress (CIP) and expenses resulted in a $35 million decrease to results of operations. Other decreases in the amount of $55 million related to asset reconciliation efforts between the general ledger account balances and property records.

Finally, a net decrease of $19 was recorded by the Savannah District to recognize the CIP associated with the enjoined project for the Richard Russell pump storage project. The FY 00 financial statements included a $477 million adjustment to recognize this asset. During FY 01, the Savannah District recorded a $458 million prior period adjustment through a journal voucher entry into their CEFMS database. The net adjustment to remove the duplicate recording was $19 million.

Imputed financing reported on Line 2F includes $5.1 million for power plant fees paid to states as compensation for "lost" property taxes on federally leased land leased to others. Line 2F also includes $25.5 million for Judgment Fund liabilities for which the Corps is not responsible for reimbursement to the Department of the Treasury.

Note 21.A. Disclosures Related to the Statement of Budgetary Resources

As of September 30, (Amounts in thousands)	2001	2000
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$1,412,416	$1,142,720
2. Available Borrowing and Contract Authority at the End of the Period	$42,167	$26,781

3. Other Information:

Intra-Corps transactions have not been eliminated because the Statement of Budgetary Resources is presented as combined and combining.

Borrowing authority is for capital improvements to the Washington Aqueduct. Funding to repay the debt is provided by Arlington County, Virginia, Falls Church, Virginia, and the District of Columbia.

Unobligated Balance Beginning of Period differs from Unobligated Balance Available and Unavailable at FY 2000 yearend. Adjustments were made at FY 2000 yearend to reconcile Funds Balance with Treasury. Databases were corrected in FY 2001 to reflect what the correct ending balance was at FY 2000 yearend. The Beginning Balance includes an amount for Coastal Wetlands Restoration Trust Fund, which was not reported last year.

Obligated Balance Beginning of Period differs from Obligated Balance End of Period FY 2000. Beginning Balance includes an amount for the Coastal Wetlands Restoration Trust Fund, which was not reported last year.

Note 21.B. Disclosures Related to Problem Disbursements, In-transit Disbursements and Suspense/Budget Clearing Accounts

As of September 30, (Amounts in thousands)	2000	2001	Cumulative(Decrease)/ Increase
1. Problem Disbursements	$0	$0	$0
2. In-transit Disbursements, Net	$0	$0	$0
3. Other Information Related to Problem Disbursements and In-transit Disbursements:			
4. Suspense/Budget Clearing Accounts			
Account	Sep 2000	Sep 2001	(Decrease)/Increase
F3875	$17,909	$17,422	($487)
F3880	(5)	(5)	0
Total	$17,904	$17,417	($487)

F3875 includes a portion of receipts from leases of land to the public for flood control, navigation and allied purposes. The portion of lease receipts when the term of the lease extends into fiscal year 2002 is collected into F3875. The collections are transferred out in the year following collection. Also included are receivables of $188 thousand that pertain to the leases of land.

F3875 includes a $13 million disputed collection on a water storage contract at Tulsa District

Note 22. Disclosures Related to the Statement of Financing

Transfers to other government agencies include $7.3 million to the Department of the Interior, $40 thousand to the Department of Transportation, $22 thousand to the Department of Agriculture, $70 thousand to the Tennessee Valley Authority, $59 thousand to General Services Administration, and $357.7 thousand to the Department of Defense.

Transfers in from other government agencies include $9.6 million from the Department of Energy.

Note 23. Disclosures Related to the Statement of Custodial Activity

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 24. Other Disclosures

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 24.A. Other Disclosures

Not Applicable to the Corps of Engineers, Civil Works Fund

Consolidating Balance Sheet

Department of Defense • U.S. Army Corps of Engineers
As of September 30, 2001 • ($ in thousands)

	Special Funds	Trust Funds	Transfer Funds	Borrowing Authority
1. ASSETS (Note 2)				
A. Intragovernmental:				
1. Fund Balance with Treasury (Note 3)	$24,537	$11,129	$56,434	$4,457
2. Investments (Note 4)	0	2,255,539	0	0
3. Accounts Receivable (Note5)	0	285,534	3	0
4. Other Assets (Note 6)	0	0	0	0
5. Total Intragovernmental Assets	$24,537	$2,552,202	$56,437	$4,457
B. Cash and Other Monetary Assets (Note 7)	$0	$0	$0	$0
C. Accounts Receivable (Note 5)	2,255	0	0	0
D. Loans Receivable (Note 8)	0	0	0	0
E. Inventory and Related Property (Note 9)	0	0	0	0
F. General Property, Plant and Equipment (Note 10)	1,996	632,367	133,215	55,024
G. Other Assets (Note 6)	0	0	0	0
2. TOTAL ASSETS	$28,788	$3,184,569	$189,652	$59,481
3. LIABILITIES (Note 11)				
A. Intragovernmental:				
1. Accounts Payable (Note 12)	$135	$4,098	$1,680	$0
2. Debt (Note 13)	0	0	0	30,512
3. Environmental Liabilities (Note 14)	0	0	0	0
4. Other Liabilities (Note 15 & Note 16)	2,262	5,999	0	0
5. Total Intragovernmental Liabilities	$2,397	$10,097	$1,680	$30,512
B. Accounts Payable (Note 12)	$3,044	$16,053	$4,994	$0
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	0	0	0
D. Environmental Liabilities (Note 14)	0	0	0	0
E. Loan Guarantee Liability (Note 8)	0	0	0	0
F. Other Liabilities (Note 15 and Note 16)	4	1,238	525	50
4. TOTAL LIABILITIES	$5,445	$27,388	$7,199	$30,562
5. NET POSITION				
A. Unexpended Appropriations (Note 18)	($1,536)	$0	$54,303	$15,436
B. Cumulative Results of Operations	24,879	3,157,181	128,150	13,483
6. TOTAL NET POSITION	$23,343	$3,157,181	$182,453	$28,919
7. TOTAL LIABILITIES AND NET POSITION	$28,788	$3,184,569	$189,652	$59,481

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
As of September 30, 2001 • ($ in thousands)

	Revolving Funds	Contributed Funds	General Funds	FUSRAP
1. ASSETS (Note 2)				
A. Intragovernmental:				
1. Fund Balance with Treasury (Note 3)	$849,577	$298,724	$1,251,821	$41,311
2. Investments (Note 4)	0	0	0	0
3. Accounts Receivable (Note5)	7,791	1	183,212	0
4. Other Assets (Note 6)	0	0	0	0
5. Total Intragovernmental Assets	$857,368	$298,725	$1,435,033	$41,311
B. Cash and Other Monetary Assets (Note 7)	$0	$0	$3,990	$0
C. Accounts Receivable (Note 5)	1,163	0	1,024,870	0
D. Loans Receivable (Note 8)	0	0	0	0
E. Inventory and Related Property (Note 9)	39,252	0	15,467	0
F. General Property, Plant and Equipment (Note 10)	881,559	767,561	32,346,539	20
G. Other Assets (Note 6)0	42	0	16,148	0
2. TOTAL ASSETS	$1,779,384	$1,066,286	$34,842,047	$41,331
3. LIABILITIES (Note 11)				
A. Intragovernmental:				
1. Accounts Payable (Note 12)	$52,688	$607	$33,310	$213
2. Debt (Note 13)	0	0	0	0
3. Environmental Liabilities (Note 14)0	0	0	0	0
4. Other Liabilities (Note 15 & Note 16)	9,658	1,171	1,148,227	0
5. Total Intragovernmental Liabilities	$62,346	$1,778	$1,181,537	$213
B. Accounts Payable (Note 12)	$45,039	$11,785	$398,707	$25,704
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	0	0	0
D. Environmental Liabilities (Note 14)	0	0	0	0
E. Loan Guarantee Liability (Note 8)	0	0	0	0
F. Other Liabilities (Note 15 and Note 16)	418,070	3,280	153,078	277
4. TOTAL LIABILITIES	$525,455	$16,843	$1,733,322	$26,194
5. NET POSITION				
A. Unexpended Appropriations (Note 18)	$0	$283,052	$848,529	$15,117
B. Cumulative Results of Operations	1,253,929	766,391	32,260,196	20
6. TOTAL NET POSITION	$1,253,929	$1,049,443	$33,108,725	$15,137
7. TOTAL LIABILITIES AND NET POSITION	$1,779,384	$1,066,286	$34,842,047	$41,331

The accompanying notes are an integral part of these statements.

Consolidating Balance Sheet

Department of Defense • U.S. Army Corps of Engineers
As of September 30, 2001 • ($ in thousands)

	2001 Combined	Eliminations	2001 Consolidated	2000 Consolidated
1. ASSETS (Note 2)				
A. Intragovernmental:				
1. Fund Balance with Treasury (Note 3)	$2,537,990	$0	$2,537,990	$2,404,315
2. Investments (Note 4)	2,255,539 0	2,255,539	2,075,561	
3. Accounts Receivable (Note5)	476,541	0	476,541	151,301
4. Other Assets (Note 6)	0	0	0	0
5. Total Intragovernmental Assets	$5,270,070	$0	$5,270,070	$4,631,177
B. Cash and Other Monetary Assets (Note 7)	$3,990	$0	$3,990	$965
C. Accounts Receivable (Note 5)	1,028,288	0	1,028,288	1,050,363
D. Loans Receivable (Note 8)	0	0	0	0
E. Inventory and Related Property (Note 9)	54,719	0	54,719	59,469
F. General Property, Plant and Equipment (Note 10)	34,818,281	0	34,818,281	34,538,092
G. Other Assets (Note 6)0	16,190	0	16,190	79,891
2. TOTAL ASSETS	$41,191,538	$0	$41,191,538	$40,359,957
3. LIABILITIES (Note 11)				
A. Intragovernmental:				
1. Accounts Payable (Note 12)	$92,731	$0	$92,727	$87,540
2. Debt (Note 13)	30,512	0	30,512	18,212
3. Environmental Liabilities (Note 14)0	0	0	0	0
4. Other Liabilities (Note 15 & Note 16)	1,167,317	0	1,167,318	1,166,330
5. Total Intragovernmental Liabilities	$1,290,560	$0	$1,290,557	$1,272,082
B. Accounts Payable (Note 12)	$505,326	$0	$505,328	$585,938
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	0	0	0
D. Environmental Liabilities (Note 14)	0	0	0	0
E. Loan Guarantee Liability (Note 8)	0	0	0	0
F. Other Liabilities (Note 15 and Note 16)	576,522	0	576,523	497,833
4. TOTAL LIABILITIES	$2,372,408	$0	$2,372,408	$2,355,853
5. NET POSITION				
A. Unexpended Appropriations (Note 18)	$1,214,901	$0	$1,214,901	$1,004,640
B. Cumulative Results of Operations	37,604,229	0	37,604,229	36,999,464
6. TOTAL NET POSITION	$38,819,130	$0	$38,819,130	$38,004,104
7. TOTAL LIABILITIES AND NET POSITION	$41,191,538	$0	$41,191,538	$40,359,957

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • ($ in thousands)

	2001 Combined	Eliminations	2001 Consolidated	2000 Consolidated
1. Program Costs				
A. Borrowing Authority				
1. Intragovernmental	$1,311	$0	$1,311	$1,135
2. With the Public	8,239	0	8,239	16,086
3. Total Program Cost	$9,550	$0	$9,550	$17,221
4. (Less: Earned Revenue)	(8,971)	0	(8,971)	(16,612)
5. Net Program Costs	$579	$0	$579	$609
B. Contributed Fund				
1. Intragovernmental	$6,486	($5,390)	$1,096	$550
2. With the Public	139,174	0	139,174	119,239
3. Total Program Cost	$145,660	($5,390)	$140,270	$119,789
4. (Less: Earned Revenue)	1,165	0	1,165	0
5. Net Program Costs	$146,825	($5,390)	$141,435	$119,789
C. FUSRAP				
1. Intragovernmental	$26,208	($25,733)	$475	$211
2. With the Public	151,840	0	151,840	131,991
3. Total Program Cost	$178,048	($25,733)	$152,315	$132,202
4. (Less: Earned Revenue)	0	0	0	(20,000)
5. Net Program Costs	$178,048	($25,733)	$152,315	$112,202
D. General Funds				
1. Intragovernmental	$127,493	($5,507)	$121,986	$57,824
2. With the Public	3,448,065	0	3,448,065	3,060,358
3. Total Program Cost	$3,575,558	($5,507)	$3,570,051	$3,118,182
4. (Less: Earned Revenue)	(475,218)	36,593	(438,625)	(486,407)
5. Net Program Costs	$3,100,340	$31,086	$3,131,426	$2,631,775
E. Revolving Funds				
1. Intragovernmental	$887,835	($325)	$887,510	$492,308
2. With the Public	(660,624)	0	(660,624)	(294,504)
3. Total Program Cost	$227,211	($325)	$226,886	$197,804
4. (Less: Earned Revenue)	(53,683)	5,864	(47,819)	(52,274)
5. Net Program Costs	$173,528	$5,539	$179,067	$145,530
F. Special Funds				
1. Intragovernmental	$73	($69)	$4	$0
2. With the Public	16,037	0	16,037	14,734
3. Total Program Cost	$16,110	($69)	$16,041	$14,734
4. (Less: Earned Revenue)	(1)	0	(1)	0
5. Net Program Costs	$16,109	($69)	$16,040	$14,734
G. Transfer Funds				
1. Intragovernmental	$3,255	($3,187)	$68	$738
2. With the Public	14,580	0	14,580	4,295
3. Total Program Cost	$17,835	($3,187)	$14,648	$5,033
4. (Less: Earned Revenue)	0	0	0	0
5. Net Program Costs	$17,835	($3,187)	$14,648	$5,033

See Note 1 and Note 19.

The accompanying notes are an integral part of these statements.

Consolidating Statement of Net Cost

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • ($ in thousands)

	2001 Combined	Eliminations	2001 Consolidated	2000 Consolidated
H. Trust Funds				
1. Intragovernmental	$4,346	($2,246)	$2,100	$142
2. With the Public	651,370	0	651,370	730,756
3. Total Program Cost	$655,716	($2,246)	$653,470	$730,898
4. (Less: Earned Revenue)	0	0	0	(103,056)
5. Net Program Costs	$655,716	($2,246)	$653,470	$627,842
I. Total Program Costs				
1. Intragovernmental	$1,057,007	($42,457)	$1,014,550	$552,908
2. With the Public	3,768,681	0	3,768,681	3,782,955
3. Total Program Cost	$4,825,688	($42,457)	$4,783,231	$4,335,863
4. (Less: Earned Revenue)	(536,708)	42,457	(494,251)	(678,349)
5. Net Program Costs	$4,288,980	$0	$4,288,980	$3,657,514
2. Costs Not Assigned to Programs	$0	$0	$0	$0
3. (Less:Earned Revenue not attributable to Programs)	0	0	0	0
4. Net Costs of Operations	$4,288,980	$0	$4,288,980	$3,657,514

See Note 1 and Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • ($ in thousands)

		Special Funds	Trust Funds	Transfer Funds	Borrowing Authority
1.	**Net Cost of Operations**	$16,109	$655,716	$17,835	$579
2.	**Financing Sources (other than exchange revenues)**				
	A. Appropriations Used	16,556	633	37,052	(1,631)
	B. Taxes and Other Nonexchange Revenue	0	945,870	0	8,045
	C. Donations - Nonexchange Revenue	0	0	0	0
	D. Imputed Financing (Note 20)	0	0	0	0
	E. Transfers - in	22,890	1,052,143	8,496	0
	F. Transfers - out	(685)	(781,527)	(2,971)	0
	G. Other	0	0	1	0
	H. Total Financing Sources (other than Exchange Revenues)	$38,761	$1,217,119	$42,578	$6,414
3.	**Net Results of Operations**	$22,652	$561,403	$24,743	$5,835
4.	**Prior Period Adjustments (Note 20)**	14	49,296	(444)	0
5.	**Net Change in Cumulative Results of Operations**	$22,666	$610,699	$24,299	$5,835
6.	**Increase (Decrease) in Unexpended Appropriations**	(1,897)	10,759	37,443	2,217
7.	**Change in Net Position**	$20,769	$621,458	$61,742	$8,052
8.	**Net Position-Beginning of the Period**	2,573	2,535,721	120,711	20,866
9.	**Net Position-End of the Period**	$23,342	$3,157,179	$182,453	$28,918

See Note 1 and Note 20.

The accompanying notes are an integral part of these statements.

Consolidating Statement of Changes in Net Position

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • ($ in thousands)

		Revolving Funds	Contributed Funds	General Funds	FUSRAP
1.	**Net Cost of Operations**	$173,528	$146,825	$3,100,340	$178,048
2.	**Financing Sources (other than exchange revenues)**				
	A. Appropriations Used	11,874	300,679	3,766,875	178,048
	B. Taxes and Other Nonexchange Revenue	0	0	(34,114)	0
	C. Donations - Nonexchange Revenue	5	0	270	0
	D. Imputed Financing (Note 20)	180,960	0	30,635	0
	E. Transfers - in	29	43	16,520	0
	F. Transfers - out	(287)	0	(7,674)	0
	G. Other	0	0	(8,860)	0
	H. Total Financing Sources (other than Exchange Revenues)	$192,581	$300,722	$3,763,652	$178,048
3.	**Net Results of Operations**	$19,053	$153,897	$663,312	$0
4.	**Prior Period Adjustments (Note 20)**	(2,361)	9,062	(901,696)	0
5.	**Net Change in Cumulative Results of Operations**	$16,692	$162,959	($238,384)	$0
6.	**Increase (Decrease) in Unexpended Appropriations**	0	12,144	187,952	(38,356)
7.	**Change in Net Position**	$16,692	$175,103	($50,432)	($38,356)
8.	**Net Position-Beginning of the Period**	1,237,237	874,341	33,159,160	53,493
9.	**Net Position-End of the Period**	$1,253,929	$1,049,444	$33,108,728	$15,137

See Note 1 and Note 20.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • ($ in thousands)

		2001 Combined	Eliminations	2001 Consolidated	2000 Consolidated
1.	**Net Cost of Operations**	$4,288,980	$0	$4,288,980	$3,657,514
2.	**Financing Sources (other than exchange revenues)**				
	A. Appropriations Used	4,310,086	0	4,310,086	4,017,634
	B. Taxes and Other Nonexchange Revenue	919,801	0	919,801	800,241
	C. Donations - Nonexchange Revenue	275	0	275	1,362
	D. Imputed Financing (Note 20)	211,595	0	211,595	166,464
	E. Transfers - in	1,100,121	15,479	1,084,642	21,836
	F. Transfers - out	(793,144)	(15,479)	(777,665)	(120,682)
	G. Other	(8,859)	0	(8,859)	(647,287)
	H. Total Financing Sources (other than Exchange Revenues)	$5,739,875	$0	$5,739,875	$4,239,568
3.	**Net Results of Operations**	$1,450,895	$0	$1,450,895	$582,054
4.	**Prior Period Adjustments (Note 20)**	(846,129)	0	(846,129)	360,235
5.	**Net Change in Cumulative Results of Operations**	$604,766	$0	$604,766	$942,289
6.	**Increase (Decrease) in Unexpended Appropriations**	210,262	0	210,262	(197,777)
7.	**Change in Net Position**	$815,028	$0	$815,028	$744,512
8.	**Net Position-Beginning of the Period**	38,004,102	0	38,004,102	37,259,592
9.	**Net Position-End of the Period**	$38,819,130	$0	$38,819,130	$38,004,104

See Note 1 and Note 20.

The accompanying notes are an integral part of these statements.

Combining Statement of Budgetary Resources

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • ($ in thousands)

	Special Funds	Trust Funds	Transfer Funds	Borrowing Authority
BUDGETARY RESOURCES				
A. Budget Authority	$14,477	$1,042,227	$79,637	$0
B. Unobligated Balance - Beginning of Period	192	(75,845)	7,328	20,491
C. Net Transfers Prior-Year Balance, Actual	0	0	(491)	0
D. Spending Authority from Offsetting Collections	100	0	44	8,971
E. Adjustments	0	0	5	(8,116)
F. Total Budgetary Resources	$14,769	$966,382	$86,523	$21,346
STATUS OF BUDGETARY RESOURCES				
A. Obligations Incurred	$14,470	$785,577	$49,319	$17,453
B. Unobligated Balances - Available	299	180,805	37,196	3,893
C. Unobligated Balances - Not Available	0	0	8	0
D. Total, Status of Budgetary Resources	$14,769	$966,382	$86,523	$21,346
OUTLAYS				
A. Obligations Incurred	$14,470	$785,577	$49,319	$17,453
B. Less: Spending Authority from Offsetting Collections and Adjustments	(100)	0	(49)	(8,971)
C. Obligated Balance, Net - Beginning of Period	3,145	97,516	12,800	12,983
D. Obligated Balance Transferred, Net	0	0	0	0
E. Less: Obligated Balance, Net - End of Period	(1,348)	(109,754)	(24,194)	(12,285)
F. Total Outlays	$16,167	$773,339	$37,876	$9,180

See Note 1 and Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • ($ in thousands)

	Revolving Funds	Contributed Funds	General Funds	FUSRAP
BUDGETARY RESOURCES				
A. Budget Authority	$0	$330,838	$3,911,413	$139,692
B. Unobligated Balance - Beginning of Period	495,588	197,339	974,418	19,466
C. Net Transfers Prior-Year Balance, Actual	0	0	0	0
D. Spending Authority from Offsetting Collections	3,381,281	9	1,101,442	12,902
E. Adjustments	0	0	(9,434)	0
F. Total Budgetary Resources	$3,876,869	$528,186	$5,977,839	$172,060
STATUS OF BUDGETARY RESOURCES				
A. Obligations Incurred	$3,449,055	$332,599	$4,782,276	$168,614
B. Unobligated Balances - Available	427,814	195,587	1,195,082	3,446
C. Unobligated Balances - Not Available	0	0	481	0
D. Total, Status of Budgetary Resources	$3,876,869	$528,186	$5,977,839	$172,060
OUTLAYS				
A. Obligations Incurred	$3,449,055	$332,599	$4,782,276	$168,614
B. Less: Spending Authority from Offsetting Collections and Adjustments	(3,381,281)	(9)	(1,101,437)	(12,902)
C. Obligated Balance, Net - Beginning of Period	359,649	96,456	150,006	65,032
D. Obligated Balance Transferred, Net	0	0	0	0
E. Less: Obligated Balance, Net - End of Period	(421,764)	(103,137)	(33,425)	(37,865)
F. Total Outlays	$5,659	$325,909	$3,797,420	$182,879

See Note 1 and Note 21.

The accompanying notes are an integral part of these statements.

Combining Statement of Budgetary Resources

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • ($ in thousands)

	2001 Combined	2000 Combined
BUDGETARY RESOURCES		
A. Budget Authority	$5,518,284	$4,614,169
B. Unobligated Balance - Beginning of Period	1,638,977	2,136,227
C. Net Transfers Prior-Year Balance, Actual	(491)	(1)
D. Spending Authority from Offsetting Collections	4,504,749	3,909,101
E. Adjustments	(17,545)	(35,122)
F. Total Budgetary Resources	$11,643,974	$10,624,374
STATUS OF BUDGETARY RESOURCES		
A. Obligations Incurred	$9,599,363	$8,926,397
B. Unobligated Balances - Available	2,044,122	1,694,496
C. Unobligated Balances - Not Available	489	3,481
D. Total, Status of Budgetary Resources	$11,643,974	$10,624,374
OUTLAYS		
A. Obligations Incurred	$9,599,363	$8,926,397
B. Less: Spending Authority from Offsetting Collections and Adjustments	(4,504,749)	(3,909,699)
C. Obligated Balance, Net - Beginning of Period	797,587	394,538
D. Obligated Balance Transferred, Net	0	0
E. Less: Obligated Balance, Net - End of Period	(743,772)	(715,876)
F. Total Outlays	$5,148,429	$4,695,360

See Note 1 and Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • ($ in thousands)

	Special Funds	Trust Funds	Transfer Funds	Borrowing Authority
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:				
A. Obligations Incurred	$14,470	$785,577	$49,319	$17,453
B. Less: Spending Authority from Offsetting Collections and Adjustments Donations Not in the Entity's Budget	(100)	0	(49)	(8,971)
C. Financing Imputed for Cost Subsidies	0	0	0	0
D. Transfers-In (Out)	(685)	(11,736)	5,525	0
E. Less: Exchange Revenue Not in the Entity's Budget	7	0	0	0
F. Nonexchange Revenue Not in the Entity's Budget	0	0	0	8,045
G. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0	0	0	0
H. Other	0	0	0	0
I. Total Obligations as Adjusted and Nonbudgetary Resources	$13,692	$773,841	$54,795	$16,527
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:				
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decreases	$2,086	($8,802)	($9,552)	$819
B. Change in Unfilled Customer Orders	0	0	12	0
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	323	(157,606)	(36,823)	(28,962)
D. Financing Sources that Fund Costs of Prior Periods	(565)	0	0	0
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0	0	0
F Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0	0	0
G. Other - (Increases)/Decrease	0	46,126	(442)	0
H. Total Resources That Do Not Fund Net Costs of Operations	$1,844	($120,282)	($46,805)	($28,143)
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES				
A. Depreciation and Amortization	$7	$2,157	$1,349	$0
B. Bad Debts Related to Uncollectable Non-Credit Reform Receivables	0	0	0	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	0	0	8,497	0
D. Loss of Disposition of Assets	0	0	0	0
E. Other - (Increases)/Decrease	0	0	0	0
F. Total Costs That Do Not Require Resources	$7	$2,157	$9,846	$0
4. FINANCING SOURCES YET TO BE PROVIDED	$565	$0	$0	$12,194
5. NET COST OF OPERATIONS See Note 1 and Note 22.	$16,108	$655,716	$17,836	$578

The accompanying notes are an integral part of these statements.

Combining Statement of Financing

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • ($ in thousands)

	Revolving Funds	Contributed Funds	General Funds	FUSRAP
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:				
A. Obligations Incurred	$3,449,055	$332,599	$4,782,276	$168,614
B. Less: Spending Authority from Offsetting Collections and Adjustments Donations Not in the Entity's Budget	(3,381,281)	(9)	(1,101,437)	(12,902)
C. Financing Imputed for Cost Subsidies	5	0	270	0
D. Transfers-In (Out)	180,960	0	30,635	0
E. Less: Exchange Revenue Not in the Entity's Budget	(259)	43	8,847	0
F. Nonexchange Revenue Not in the Entity's Budget	17	0	(738)	0
G. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0	0	(34,089)	0
H. Other	0	0	(43,761)	0
I. Total Obligations as Adjusted and Nonbudgetary Resources	$248,497	$332,633	$3,642,003	$155,712
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:				
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decreases	($36,651)	($13,641)	($243,147)	$26,942
B. Change in Unfilled Customer Orders	(43,990)	4	279,901	(4,606)
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(46,216)	(164,425)	(1,106,597)	0
D. Financing Sources that Fund Costs of Prior Periods	0	0	(27,741)	0
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0	0	0
F Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0	0	0
G. Other - (Increases)/Decrease	(2,495)	9,064	(443,123)	0
H. Total Resources That Do Not Fund Net Costs of Operations	($129,352)	($168,998)	($1,540,707)	$22,336
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES				
A. Depreciation and Amortization	$53,409	$169	$532,772	$0
B. Bad Debts Related to Uncollectable Non-Credit Reform Receivables	0	0	0	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	154	(18,149)	179,468	0
D. Loss of Disposition of Assets	0	0	28,145	0
E. Other - (Increases)/Decrease0	0	0	0	0
F. Total Costs That Do Not Require Resources	$53,563	($17,980)	$740,385	$0
4. FINANCING SOURCES YET TO BE PROVIDED	$819	$1,170	$258,661	$0
5. NET COST OF OPERATIONS	$173,527	$146,825	$3,100,342	$178,048

See Note 1 and Note 22.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • ($ in thousands)

		2001 Combined	2000 Combined
1.	**OBLIGATIONS AND NONBUDGETARY RESOURCES:**		
	A. Obligations Incurred	$9,599,363	$8,926,397
	B. Less: Spending Authority from Offsetting Collections and Adjustments Donations Not in the Entity's Budget	(4,504,749)	(3,909,699)
	C. Financing Imputed for Cost Subsidies	275	0
	D. Transfers-In (Out)	211,595	166,464
	E. Less: Exchange Revenue Not in the Entity's Budget	1,735	0
	F. Nonexchange Revenue Not in the Entity's Budget	(714)	(1,956)
	G. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	(26,044)	23,067
	H. Other	(43,761)	(113,056)
	I. Total Obligations as Adjusted and Nonbudgetary Resources	0	0
2.	**RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:**		
	A. Change in Amount of Goods, Services and Benefits Ordered but Not Yet Received or Provided (Increases)/Decreases	$5,237,700	$5,091,217
	B. Change in Unfilled Customer Orders	($281,946)	$47,310
	C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	231,321	(264,157)
	D. Financing Sources that Fund Costs of Prior Periods	(1,540,306)	(1,815,691)
	E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	(28,306)	23,707
	F Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0
	G. Other - (Increases)/Decrease	0	0
	H. Total Resources That Do Not Fund Net Costs of Operations	(390,870)	(5,186)
3.	**COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES**		
	A. Depreciation and Amortization	($2,010,107)	($2,014,017)
	B. Bad Debts Related to Uncollectable Non-Credit Reform Receivables	$589,863	$580,218
	C. Revaluation of Assets and Liabilities - Increases/(Decreases)	0	0
	D. Loss of Disposition of Assets	169,970	0
	E. Other - (Increases)/Decrease0	28,145	0
	F. Total Costs That Do Not Require Resources	$787,978	$580,218
4.	**FINANCING SOURCES YET TO BE PROVIDED**	$273,409	$96
5.	**NET COST OF OPERATIONS**	$4,288,980	$3,657,514

See Note 1 and Note 22.

The accompanying notes are an integral part of these statements.

Heritage Assets

For Fiscal Year Ended September 2001

(a)	(b) Measurement Quantity	(c) As of 10/1/2000	(d) Additions	(e) Deletions	(f) As of 9/30/2001
Museums	Each				
Monuments & Memorials	Each	1			1
Cemeteries & Archeological Sites	Sites	120			120
Buildings & Structure	Each	144	180		324
Major Collections	Each	7,909	190		8099

Narrative Statement:

Other than multipurpose heritage assets, heritage assets are not material to the mission of the U. S. Army Corps of Engineers. Disclosures pertinent to multipurpose heritage assets is contained in the financial statements.

Heritage assets classified as Land are special land plots containing archaeological sites as listed on the National Register of Historic Places or eligible to be listed.

Heritage assets on display are assumed to be in adequate condition for display purposes, consistent with their origins, unless otherwise noted. Reported heritage assets are free of material conditions that are counter to safeguarding, adequately protecting, and properly managing those assets; they have not materially degraded while under the care of the U. S. Army Corps of Engineers. The existence of most of the un-categorized heritage assets is informally known to be adequate for display purposes, however, the condition of many un-categorized assets are unknown.

General Property, Plant and Equipment

Real Property Deferred Maintenance Amounts
As of September 30, 2001
($ in thousands)

Property Type/Major Class	
1. Real Property	
A. Buildings	$0
B. Structures	415,000
C. Land	0
2. Total	$415,000

Narrative Statement:

Deferred maintenance at Civil Works water resources projects operated and maintained by the U.S. Army Corps of Engineers was determined through the budget development process whereby operations managers identify the operation and maintenance (O&M) needs at each project in the Civil Works inventory. O&M needs are based on inspections of project Features, engineering analyses and historical experience.

Schedule, Part A DoD Intra-governmental Asset Balances ($ Amounts in Thousands)	Treasury Index:	Fund Balance with Treasury	Accounts Receivable:	Loans Receivable:	Investments:	Other:
General Printing Office	05		$81			
The Judiciary	10		11			
Executive Office of the President	11		0			
Department of Agriculture	12		4,481			
Department of Commerce	13		1,149			
Department of the Interior	14		274,306			
Department of Justice	15		14,595			
Department of Labor	16		29			
Navy General Fund	17		4,302			
United States Postal Service	18		16			
Department of State	19		2,866			
Department of the Treasury	20	$2,537,990	21,634		$2,255,539	
Army General Fund	21		3,873			
Office of Personnel Management	24		1			
Social Security Administration	28		3			
Nuclear Regulatory Commission	31		7			
Smithsonian Institution	33		76			
Department of Veterans Affairs	36		497			
U.S. Equal Employment Opportunity Commission	45		3			
General Service Administration	47		554			
National Science Foundation	49		292			
Securities and Exchange Commission	50		0			
Air Force General Fund	57		232			
Federal Emergency Management Agency	58		23,608			
Railroad Retirement Board	60		6			
Tennessee Valley Authority	64		222			
Environmental Protection Agency	68		34,696			
Department of Transportation	69		6,849			
Agency for International Development	72		1,754			
Department of Health and Human Services	75		389			
National Aeronautics and Space Administration	80		3,302			
Department of Housing and Urban Development	86		231			
Department of Energy	89		4,110			
Department of Education	91		8			
Independent Agencies	95		70,853			
US Army Corps of Engineers	96					
Other Defense Organizations General Funds	97		887			
Other Defense Organizations Working Capital Funds	97-4930		327			
Army Working Capital Fund	97-4930.001		25			
Navy Working Capital Fund	97-4930.002		266			
Totals might not match reports. Totals:		**$2,537,990**	**$476,541**		**$2,255,539**	

U.S. Army Corps of Engineers

Schedule, Part B DoD Intra-governmental Entity Liabilities ($ Amounts in Thousands)	Treasury Index:	Accounts Payable:	Debts/Borrowings From Other Agencies:	Other:
Government Printing Office	04	$193		
Department of Agriculture	12	5,064		$230
Department of Commerce	13	3,985		11
Department of the Interior	14	12,134		8,513
Department of Justice	15	620		20
Department of Labor	16	279		40,178
Navy General Fund	17	1,191		
United States Postal Service	18	1		8
Department of State	19	375		(237)
Department of the Treasury	20	1,199	$30,512	1,096,171
Army General Fund	21	16,415		298
Office of Personnel Management	24	232		9,477
Department of Veterans Affairs	36	1		42
U.S. Equal Employment Opportunity Commission	45	1		
General Service Administration	47	33,808		340
Federal Labor Relations Authority	54	0		
Air Force General Fund	57	58		
Federal Emergency Management Agency	58	15		0
Office of Special Counsel	62			1,403
Tennessee Valley Authority	64	4,527		
Environmental Protection Agency	68	509		
Department of Transportation	69	465		1
Small Business Administration	73			1
Department of Health and Human Services	75	782		5
National Aeronautics and Space Administration	80	240		
Department of Housing and Urban Development	86			8,344
National Archives and Records Administration	88	21		
Department of Energy	89	2,034		386
Department of Education	91			1,472
Independent Agencies	95	25		654
Other Defense Organizations General Funds	97	5,768		
Other Defense Organizations Working Capital Funds	97-4930	1,743		
Army Working Capital Fund	97-4930.001	1		
Navy Working Capital Fund	97-4930.002	1,023		
Air Force Working Capital Fund	97-4930.003	22		
Totals might not match reports. Totals:		**$92,731**	**$30,512**	**$1,167,317**

Schedule, Part C DoD Intra-governmental Revenue and Related Costs ($ Amounts in Thousands)	Treasury Index:	Earned Revenue:
Government Printing Office	04	$0
General Printing Office	05	740
Other Legislative Branch Agencies	09	1
The Judiciary	10	32
Executive Office of the President	11	0
Department of Agriculture	12	12,765
Department of Commerce	13	2,591
Department of the Interior	14	36,880
Department of Justice	15	56,143
Department of Labor	16	39
Navy General Fund	17	3,956
United States Postal Service	18	125
Department of State	19	4,546
Department of the Treasury	20	17,776
Army General Fund	21	17,993
Office of Personnel Management	24	9
Social Security Administration	28	6
Nuclear Regulatory Commission	31	58
Smithsonian Institution	33	93
Department of Veterans Affairs	36	911
U.S. Equal Employment Opportunity Commission	45	5
General Service Administration	47	1,778
National Science Foundation	49	1,284
Securities and Exchange Commission	50	0
Air Force General Fund	57	265
Federal Emergency Management Agency	58	29,314
Railroad Retirement Board	60	19
National Labor Relations Board	63	1
Tennessee Valley Authority	64	612
Environmental Protection Agency	68	120,368
Department of Transportation	69	20,361
Agency for International Development	72	10,102
Small Business Administration	73	5
Department of Health and Human Services	75	838
National Aeronautics and Space Administration	80	7,595
Department of Housing and Urban Development	86	483
Department of Energy	89	10,776
Department of Education	91	48
Independent Agencies	95	118,293
Other Defense Organizations General Funds	97	4,792
Other Defense Organizations Working Capital Funds	97-4930	963
Army Working Capital Fund	97-4930.001	43
Navy Working Capital Fund	97-4930.002	494
Totals might not match reports. Totals:		**$483,103**

*Schedule, Part D applies only to the agency-wdie statements

U.S. Army Corps of Engineers

Schedule. Part E DoD Intra-governmental Non-exchange Revenues ($ Amounts in Thousands)	Treasury Index:	Transfers - In	Transfers - Out
Department of Agriculture	12		$75
Department of the Interior	14	$265,322	7,331
Department of Justice	15		15
Navy General Fund	17		0
Department of the Treasury	20	809,711	756,815
Army General Fund	21		159
General Service Administration	47		59
Air Force General Fund	57		0
Tennessee Valley Authority	64		97
Department of Transportation	69		13,015
Department of Energy	89	9,609	
Other Defense Organizations Working Capital Funds	97-4930		99
Totals might not match reports. Totals:		**$1,084,642**	**$777,665**

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

February 20, 2002

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT AND COMPTROLLER)
COMMANDER AND CHIEF OF ENGINEERS, U.S. ARMY CORPS OF ENGINEERS**

SUBJECT: Report on the U.S. Army Corps of Engineers, Civil Works, FY 2001 Financial Statements

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspector General. The Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements," dated October 16, 2000, establishes the minimum requirements for audits of Federal financial statements. The Office of Management and Budget Bulletin No. 01-02 requires the Inspector General, DoD, to express an opinion on the U.S. Army Corps of Engineers, Civil Works, (Corps of Engineers) financial statements and to report on the adequacy of internal controls and compliance with laws and regulations. The financial statements are the responsibility of the Corps of Engineers management. The Corps of Engineers management is also responsible for implementing effective internal controls and complying with laws and regulations.

Disclaimer of Opinion

We delegated the audit of the U.S. Army Corps of Engineers, Civil Works, FY 2001 Financial Statements to the Army Audit Agency.[1] We did not audit the U.S. Army Corps of Engineers, Civil Works, FY 2001 Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing; therefore, we do not express an opinion on these statements. Our work on the U.S. Army Corps of Engineers, Civil Works, FY 2001 Consolidated Balance Sheet was sufficient to identify persisting material internal control weaknesses related to General Property, Plant, and Equipment; Accounts Payable - Public; and general and application controls. Because the Corps of Engineers was unable to substantiate significant amounts in the Consolidated Balance Sheet, we are unable to express and we do not express an opinion on the U.S. Army Corps of Engineers, Civil Works, FY 2001 Consolidated Balance Sheet.

On February 1, 2002, we informed the Army Audit Agency that we disagreed with its draft audit report "FY 2001 Financial Statements; U. S. Army Corps of Engineers, Civil Works," because the audit work did not warrant issuing a qualified opinion on the Consolidated Balance Sheet. The Army Audit Agency was directed to revise its draft audit report. The Army Audit Agency disagreed with our direction and on February 8, 2002, issued Report No. AA 02-142, "Fiscal Year 2001 Financial Statements; U.S. Army Corps of Engineers, Civil Works," which expressed a qualified opinion on the U.S. Army Corps of Engineers, Civil Works, FY 2001 Consolidated Balance Sheet. The report was addressed internally to the Secretary of the Army and the Commander, U.S. Army Corps of Engineers. Based on our review of the audit information provided to us as of February 20, 2002, the Army Audit Agency work did not comply with generally accepted government auditing standards. External parties should not rely on the Army Audit Agency qualified opinion on the U.S. Army Corps of Engineers, Civil Works, FY 2001 Consolidated Balance Sheet.

[1]On January 25, 2002, the General Accounting Office issued a new Government Auditing Standard on organizational independence. The new standard is to be applied on a prospective basis and does not affect the audit work that was ongoing for the FY 2001 financial statements. We will apply the new standard for future audit work and will not delegate the financial statement audit work.

We were also unable to express an opinion on the U.S. Army Corps of Engineers, Civil Works, FY 2000 Financial Statements. We delegated to the Army Audit Agency the audit of the FY 2000 financial statements. The Army Audit Agency disclaimed an opinion on the FY 2000 financial statements because of material weaknesses and reportable conditions associated with the internal controls and compliance with laws and regulations. The complete text of the "Inspector General, DoD, Oversight of the Army Audit Agency Audit of the FY 2000 U.S. Army Corps of Engineers, Civil Works Program, Financial Statements," Report No. D-2001-067, dated February 28, 2001, can be accessed on the Internet at http://www.dodig.osd.mil/audit/reports. Fiscal years 2000 and 2001 Corps of Engineers financial statements are available on the Internet at http://www.dtic.mil/comptroller.

Material Weaknesses

The scope of our work was sufficient to identify deficiencies that constitute material internal control weaknesses related to General Property, Plant, and Equipment; Accounts Payable - Public; and general and application controls.

General Property, Plant, and Equipment. Because the Corps of Engineers lacked complete and reliable information to support these assets, valued at about $34.8 billion on the balance sheet, it could not satisfactorily substantiate amounts at which they were valued or verify that certain reported assets actually exist. The Corps of Engineers General Property, Plant, and Equipment (PP&E) assets consisted of $17 billion of buildings, structures, and facilities; $9 billion of construction-in-progress; $8 billion of land; $600 million of equipment; and about $60 million of other assets. Internal controls related to these assets were not adequate to ensure that amounts reported in the financial statements were not materially misstated. Of the $41 billion of total assets reported on the balance sheet, at least 70 percent had not been determined by audit to be free of material misstatement. For example:

- beginning balances had not been established for about $25 billion of general PP&E;
- at least $219 million was misclassified as construction in progress including costs that should have been expensed, as well as completed projects that were not timely transferred to sponsors or placed in service;
- depreciation was not consistently or accurately computed and analytical tests indicate that it could be misstated by as much as $400 million; and
- some assets reported in financial records did not actually exist or were not owned by the Corps of Engineers.

The Army Audit Agency advised and the Corps of Engineers made a $401.7 million adjustment to buildings, structures, and facilities. The adjustment was based on an Army Audit Agency straight-line depreciation calculation that was unsupported by sufficient, relevant audit evidence. The computation relied on untested systems-generated information even though the system controls are known to be unreliable. The cause of the misstatements was not determined before the calculation was made, so the actual amount of the misstatement was not known.

Accounts Payable – Public. The Corps of Engineers could not demonstrate that the Corps of Engineers Financial Management System (CEFMS) captured and reported accounts payable transactions in the proper period. Independent vendor confirmations and contracting actions in the DoD DD-350 database (Reports to Congress on Contracting Actions in Excess of $25,000) show that the CEFMS Accounts Payable – Public general ledger account was incomplete. In addition, CEFMS does not recognize liabilities in accordance with Statement of Federal Financial Accounting Standard No. 1, which requires that an account payable be established when goods or services are received. Instead, CEFMS does not allow an account payable to be recognized until an obligating document is entered into the system, regardless of when the goods or services were received. The Corps of Engineers could not ensure that its accounts payable, reported at $505 million, were not materially misstated.

The Army Audit Agency advised and the Corps of Engineers made a $161 million adjustment to Accounts Payable – Public on the balance sheet to prevent a potential accrual overstatement. The adjustment lacked sufficient and relevant audit support.

General and Application Controls. The General Accounting Office (GAO) Report, GAO-01-89, "Financial Management Significant Weaknesses in Corps of Engineers Computer Controls," dated October 11, 2000, identified significant vulnerabilities and risks associated with CEFMS and its applications. GAO performed followup tests of the general and application controls in FY 2001. Based upon our review of the GAO general and application control work, we concluded that the CEFMS general and application controls cannot be relied on for day-to-day transactions affecting the FY 2001 financial statements. Without reliance on the CEFMS controls or sufficient internal control testing to mitigate risks, the risk associated with Corps of Engineers financial statements was high.

Internal Controls

The objective of the audit was not to provide assurance on internal controls and we do not express an opinion on internal controls. Internal controls consist of the control environment, risk assessments, monitoring, information and communication, and control activities. Audit standards require the auditor to assess the risk that errors and irregularities may cause a material misstatement in the financial statements. Our limited review of internal controls included independent tests and analyses of tests conducted by the Army Audit Agency to determine whether controls were effective and working as designed. The FY 2001 GAO audit concluded that general and application control weaknesses precluded reliance on systems-generated data. We concluded that Corps of Engineers internal controls were not adequate to ensure that:

- PP&E assets were adequately supported and accurately valued in financial statements,
- Accounts Payable - Public liabilities were properly recorded and reported, and
- sensitive and financial information was safeguarded.

Risk Assessment

For financial reporting purposes, risk assessment is a significant component of internal control. An entity's risk assessment is its identification, analysis, and management of risks relevant to the preparation of financial statements following generally accepted accounting principles. The Corps of Engineers uses multiple systems and manual processes to compile its financial statements. Internal controls were not sufficient to provide adequate audit trails for $14 billion of year-end accounting entries.

The GAO audited CEFMS general and application controls affecting the U.S. Army Corps of Engineers, Civil Works, FY 2001 Financial Statements and identified weaknesses in system controls at the Corps of Engineers processing centers. At other Corps of Engineers sites, GAO identified serious vulnerabilities that would allow both hackers and legitimate users with valid access privileges to improperly modify, inappropriately disclose, and destroy sensitive and financial data. The Army Audit Agency's limited tests of internal controls were not sufficient to support an opinion on mitigating controls. Therefore, the risk associated with the U.S. Army Corps of Engineers, Civil Works, FY 2001 Financial Statements was high, which requires more extensive testing to determine their reliability. The Army Audit Agency considered the risk associated with the financial statements to be less than high and designed inadequate tests to provide the necessary level of assurance about the reliability of material amounts in the financial statements. The tests provided insufficient audit evidence to support their conclusions that material amounts were fairly presented in the financial statements.

Indicators of Fraud and Illegal Acts

The American Institute of Certified Public Accountants Statement of Auditing Standard No. 82, "Consideration of Fraud in a Financial Statement Audit," February 1997, requires auditors to assess the risk

of material misstatement caused by fraud or illegal acts in order to provide reasonable assurance that fraud or illegal acts material to the financial statements are detected.

Our audit procedures were limited, therefore, we were not able to obtain sufficient evidence to provide reasonable assurance that fraud or illegal acts were detected. However, we identified no material instances of fraud or illegal acts. We are unable to report the effect that fraud risk factors had on the U.S. Army Corps of Engineers, Civil Works, FY 2001 Financial Statements. Nonetheless, the Corps of Engineers internal control weaknesses significantly impair the ability to monitor, detect, and investigate fraud or theft of assets. A high risk of material misstatements caused by fraud or illegal acts will continue to be present until internal control weaknesses are remedied.

Compliance with Laws and Regulations

We did not perform tests of the Corps of Engineers' compliance with laws and regulations over financial reporting. Because the scope of our audit on compliance with laws and regulations was limited, we did not obtain sufficient evidence to support an opinion on the Corps of Engineers' compliance with laws and regulations. Therefore, we do not express an opinion on compliance.

Required Supplementary Information

The Overview, Heritage Assets, the Real Property Deferred Maintenance Amounts, and the Intra-governmental Amounts are not a required part of the principal financial statements. We did not audit and do not express an opinion on such information.

David K. Steensma

David K. Steensma
Acting Assistant Inspector General
for Auditing

DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
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8 February 2002

Secretary of the Army
Commander, U.S. Army Corps of Engineers

This report summarizes the results of our audit of the U.S. Army Corps of Engineers, Civil Works Principal Financial Statements for the fiscal year ended 30 September 2001. The Commander, U.S. Army Corps of Engineers and The Auditor General signed an engagement letter in January 2002 defining this audit. The financial statements for the year ended 30 September 2001 included comparative data for the year ended 30 September 2000. We performed our work pursuant to the Chief Financial Officers Act of 1990 as amended by the Government Management Reform Act of 1994.

We issued a disclaimer of opinion on the financial statements for the period ended 30 September 2000 on 14 February 2001 (Audit Report: AA 01-187). We are expressing a qualified opinion on the Consolidated Balance Sheet as of 30 September 2001. We are still not able to express an opinion on the Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing. The followup of the general and application control review of the Corps of Engineers Financial Management System has not been completed, so we could not rely on the computer-processed data as sufficient support for day-to-day transactions. Also, we were not able to apply other auditing procedures at this time to satisfy ourselves as to the fairness of the data presented in those statements.

This report doesn't contain recommendations, but it does include brief discussions of our results and conclusions. More detailed discussions of our results and conclusions are in supporting audit reports (see Annex C).

I appreciate the cooperation and courtesies extended to us during the audit.

Francis E. Reardon

FRANCIS E. REARDON, CPA
The Auditor General

AUDITOR'S REPORT

DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
OFFICE OF THE AUDITOR GENERAL
3101 Park Center Drive
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Secretary of the Army
Commander, U.S. Army Corps of Engineers

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, the U.S. Army Corps of Engineers prepared the accompanying financial statements for fiscal years 2000 and 2001. The Corps engaged us to audit its Civil Works Balance Sheet as of 30 September 2000 and 30 September 2001, and the Statements of Net Cost, Budgetary Resources, Financing, and Changes in Net Position for the fiscal years ended 30 September 2000 and 30 September 2001. These financial statements are the responsibility of Corps management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted government auditing standards and Office of Management and Budget Bulletin 01-02 (Audit Requirements for Federal Financial Statements). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We issued a disclaimer of opinion on the financial statements for fiscal year 2000 on 14 February 2001. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements for fiscal year 2000.

The general and application control review of the Corps financial management system identified 34 areas where improvements were needed. Corps management reported it corrected many of the deficiencies during the period ended 30 September 2001. However, followup audit work has not been completed to verify that corrective actions have been completed. Therefore, we could not rely on the computer-processed data as sufficient support for day-to-day transactions. We were not able to apply other auditing procedures at this time to satisfy ourselves as to the fairness of the information presented in the Statements of Net Cost, Budgetary Resources, Financing, and Changes in Net Position. As a result, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the U.S. Army Corps of Engineers (Civil Works) Statements of Net Cost, Budgetary Resources, Financing, and Changes in Net Position.

The Corps lacked adequate supporting documentation for us to reconcile the $9.04 billion reported as construction-in-progress under the category General Property, Plant and Equipment as of 30 September 2001. We were not able to apply other auditing procedures at this time to satisfy ourselves as to the fairness of the data presented.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to reconcile the balance of construction-in-progress, the consolidated bal-

ance sheet referred to above presents fairly, in all material respects, the financial position of the U.S. Army Corps of Engineers (Civil Works) as of 30 September 2001, in conformity with generally accepted accounting principles.

We performed limited tests of internal controls in order to determine if controls were working as designed. Our review showed that there were areas in which internal controls needed improvements, including general property, plant, and equipment and information systems. Internal controls consist of the following components: control environment, risk assessment, control activities, information and communication, and monitoring. Effective implementation of these controls provides reasonable assurance that accounting data is accumulated, recorded, and reported properly by management and that assets are safeguarded. Management is responsible for internal controls. Our tests of internal controls do not provide sufficient evidence to support an opinion; therefore, we do not express an opinion on the internal controls.

We also reviewed the Corps' compliance with laws and regulations in relation to its financial statements. Our objective was to assess compliance, not to express an opinion. Therefore, we do not express an opinion on compliance with laws and regulations. The Corps did not comply with Office of Management and Budget Bulletin Number 01-09 (Form and Content of Agency Financial Statements) and Statement of Federal Financial Accounting Standards Number 4, (Managerial Cost Accounting Standards) requirements to present the Statement of Net Cost by business programs.

We also reviewed the information presented in the Corps' overview section accompanying its financial statements. We do not express an overall opinion on this information. However, we found no material inconsistencies between the information presented in the overview and the information presented in the financial statements.

Francis E. Reardon

FRANCIS E. REARDON, CPA
The Auditor General

8 February 2002

SIGNIFICANT MATTERS

SUMMARY

The U.S. Army Corps of Engineers is a leader among the major DOD commands in striving to meet the goals of the Chief Financial Officers Act. In FY 93, the Corps was among the first to prepare and submit a separate set of financial statements. In FY 94, the Corps volunteered as a pilot project under the Government Performance and Results Act. During FY 98, the Corps completed fielding of its new financial management system and made changes in business practices to strengthen internal controls and meet the requirements of both acts.

We issued a disclaimer of opinion on the financial statements for the period ended 30 September 2000. The scope of our work was not sufficient to express, and we do not express an opinion on the financial statements for the period ended 30 September 2000.

Except for construction-in-progress, we have completed our audit work to determine if the category of General Property, Plant and Equipment is fairly stated. This category represents about $34.8 billion (85 percent) of the Corps assets. We have also completed our audit work on the other material asset and liability categories. We are expressing a qualified opinion on the balance sheet as of 30 September 2001.

We, the General Accounting Office and an independent public accounting firm jointly performed a comprehensive test of general and application controls over the Corps of Engineers Financial Management System. A General Accounting Office audit report addressed system general and application controls, and an Agency report addressed system security issues. Corps management has reported that corrective action was taken on many of the deficiencies. However, follow up audit work has not been completed to assess those corrective actions. As a result, we were unable to rely solely on the system controls when developing audit procedures.

During previous audits we discovered problems that required correction by the Corps. During the FY 01 audit, we followed up to determine whether actions were taken to correct the problems related to the following areas:

- General Property, Plant and Equipment Documentation.
- Accumulated Depreciation Related to Buildings and Structures.
- Statement of Net Cost.
- General and Application Controls Review.

DISCUSSION

In this section we discuss our audit work related to the consolidated balance sheet as of 30 September 2001. This includes our previous audit work to assess the reasonableness of the beginning balances for general property, plant and equipment as of 1 October 2000 and our audit work to assess the reasonableness of the ending balances for all material lines on the consolidated balance sheet as of 30 September 2001. Specific discussion sections relate to:

- FY 00 beginning balances for general property, plant, and equipment.
- FY 01 consolidated balance sheet ending balances.

We also discuss followup work on prior year issues related to:

- Accumulated depreciation related to buildings and structures.
- Documentation for buildings and structures.
- General and application controls review.
- Statement of net cost.

FY 00 Beginning Balances for Property, Plant and Equipment

The Corps' general property, plant, and equipment is the most significant asset category on its financial statements. For FY 01, the Corps reported a net value of about $34.8 billion for general property, plant, and equipment.

Our initial audit work related to establishing the FY 00 beginning balances for general property, plant, and equipment.

For FY 00, the Corps reported a capitalized cost of about $1.1 billion and a net value of about $625 million, as its beginning balance for general equipment. We selected a statistical sample of equipment items and reviewed supporting documentation to verify recorded amounts. Our sample results, projected to the population of general equipment, did not show any material misstatements for the FY 00 beginning balance for general equipment.

The largest category of general property, plant, and equipment reported by the Corps was real property. This category consists of land, buildings and structures, and construction-in-progress. The Corps reported a net value of about $33.3 billion as the beginning balance for FY 00. In order to assess the reasonableness of the reported beginning real property balance for FY 00, we separated the Corps' real property assets into two categories:

- Assets on power-producing projects.
- Assets on non-power-producing projects.

Assets on Power-Producing Projects

To establish the beginning balances for assets on power-producing projects, we reviewed and relied on audits performed by independent accounting firms that audit the financial statements of the Power Marketing Administrations. The Power Marketing Administrations market hydropower on behalf of the Department of Energy. About $9.5 billion of the FY 00 beginning balance for Corps land, buildings, and structures is related to power-producing projects. As part of their rate-setting practices, these Power Marketing Administrations engage independent public accounting firms to perform annual audits of the recorded values for these power-producing assets. We reviewed the work of the public accounting firms and were able to rely on it to agree with the recorded values for the power-producing assets.

Assets on Non-Power-Producing Projects

We used a combination of methods to review the beginning balances for the remaining $16.9 billion recorded for land, buildings, and structures, and the $6.9 billion recorded for construction-in-progress. For example, we sampled individual properties and obtained supporting documentation for the recorded property values. We also performed other analytical reviews on the assets related to non-power-producing projects.

Land. The beginning FY 00 balance for land assets on non-power-producing projects was $4.4 billion. This cost included both the cost paid to the previous owner to acquire the land tracts and the administrative cost associated with the acquisition. Therefore, we performed two reviews to determine the reasonableness of the costs recorded for land. We used a nonrepresentative selection of 177 land tracts to determine the amount paid to previous owners for the land. We also reviewed 92 projects to evaluate recorded amounts for administrative costs. Federal financial accounting standards require that asset costs include all costs incurred to bring the land to a form and location suitable for its intended use, which includes the administrative costs of acquiring the land. These administrative costs include Corps labor and legal fees, as well as costs such as relocations required to prepare the land for its intended use. Our review of the land tract costs and the review of the administrative costs showed that the recorded costs for land, at the beginning of FY 00, were reasonable and did not contain material misstatements.

Buildings and Structures. The Corps' FY 00 beginning balance, net of depreciation, for buildings and other structures on non-power-producing projects was $12.5 billion. To verify the recorded values for these assets, we selected a statistical sample of 371 buildings and structures from a universe of 31,180. Corps management provided available documentation in an effort to support the recorded values for the sample items. The documentation provided included both internally generated historical documentation and documentation obtained from sources external to the Corps. Examples of internal historical documentation included programming, budgeting, estimating, and accounting documents. Our review of the supporting documentation showed that the recorded values for buildings and structures were generally reasonable. However, because many of the sample items were supported by internal historical documentation, we established an assessment process in order to provide additional support for the validity of the values supported by internal historical documentation. We contracted with the Department of Interior's Bureau of Reclamation to perform independent reviews of samples of the documentation. The Bureau of Reclamation's assessments showed that these documents were generally reliable and could be used to corroborate recorded values for property.

Construction-In-Progress. The FY 00 beginning balance for construction-in-progress was $6.9 billion. To verify the beginning balance for construction-in-progress, we selected a statistical sample of 161 of the Corps' 1,703 ongoing projects. Many of the projects we reviewed were actually started prior to the deployment of the Corps of Engineers Financial Management System. For these projects, costs were recorded using the previous financial system-the Corps of Engineers Management Information System. During the conversion, Corps personnel transferred construction-in-progress balances to the new financial management system. However, the costs weren't always distributed to the proper method of accomplishment codes that identify the type of cost incurred (for example, contract cost, in-house labor, reimbursable cost). The conversion process, along with post-conversion transfers from the construction-in-progress accounts, has made it difficult to validate the reported balances for construction-in-progress. Therefore, we could not complete the audit work on the sample projects. We will continue to work with Corps management to develop a methodology to reconcile recorded costs for construction-in-progress.

FY 01 Consolidated Balance Sheet Ending Balances

The following paragraphs describe our testing on the FY 01 consolidated balance sheet ending balances.

Fund Balance With Treasury

For FY 01, the Corps reported an ending fund balance with treasury of about $2.5 billion. We reconciled this amount to recorded amounts maintained by the Department of the Treasury. We also tested FY 01 collection and disbursement activity. Our reconciliation and testing did not show any material misstatements.

Investments

For FY 01, the Corps reported an ending investments balance of about $2.3 billion. These investments were related to amounts in the Inland Waterways Trust Fund, the Harbor Maintenance Trust Fund, and the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund. We independently confirmed these amounts with the Department of the Treasury, which maintains the trust fund balances. Our confirmation did not show any material misstatements.

Accounts Receivable

For FY 01, the Corps reported an ending accounts receivable balance of about $1.5 billion. The majority of this balance relates to long-term water storage contracts with local water authorities. We confirmed the amounts and verified them to individual contracts with local water authorities. We also reviewed amounts estimated for uncollectible accounts with the public. Our review resulted in some recommended adjustments that were accepted by management, but did not show any material misstatements.

General Property, Plant and Equipment

The largest category of assets reported by the Corps was general property, plant and equipment. This category consists of land, buildings and structures, equipment, and construction-in-progress. For FY 01, the Corps reported an ending balance of about $35.2 billion (prior to auditor-recommended adjustments) for general property, plant and equipment. Specifically, the Corps reported about $7.9 billion for land, about $17.6 billion for buildings and structures, about $610 million for equipment, about $9 billion for construction-in-progress, and about $60 million for other assets. We had previously tested the FY 00 beginning balance for the material lines of general property, plant, and equipment and did not find material misstatements. Accordingly, we then tested the additions and deletions for land, buildings and structures, equipment, and other assets that had taken place for fiscal years 2000 and 2001. Our review did not show any material misstatements.

We are still working with Corps management to reconcile amounts recorded for construction-in-progress. Until the reconciliation is completed, the amounts recorded for construction-in-progress cannot be verified.

Public Accounts Payable and Other Liabilities

For FY 01, the Corps reported an ending balance for public accounts payable of $688.3 million. We selected a sample of public accounts payable transactions and reviewed the supporting documentation. Our review showed that public accounts payable were overstated because yearend accruals were inflated. To determine the amount of the overstatement, we analyzed payments against these accruals during the 2-month period following 30 September 2001. Our analysis showed the accruals were overstated by about $161 million. We recommended an adjustment, and Corps management agreed and made the recommended adjustment along with other minor adjustments. The total of the adjustments reduced the reported public accounts payable to about $505.3 million. We also compared the amounts recorded as a liability from the long-term water storage contracts to the amounts verified as receivables. Our review did not show any material misstatements.

Followup Work on Prior Year Issues

During our audit, we also followed up on several issues we had identified in previous audit work at the Corps.

Accumulated Depreciation Related to Buildings and Structures

We recalculated accumulated depreciation as of 30 September 2001 and found it was understated by about $358 million. We recommended an adjustment; Corps management agreed and made the adjustment.

In order to evaluate the reasonableness of the reported amount for accumulated depreciation, we recalculated accumulated depreciation for all building and structure properties owned by the Corps. We made this calculation using a straight-line depreciation method. The recalculation used the recorded acquisition costs, acquisition dates, and useful lives for each of the building and structure properties. During our FY 00 and FY 01 audits, we concluded that acquisition costs for buildings and structures were reasonable. We also reviewed acquisition dates and useful lives for a number of selected sample properties and found that acquisition dates and useful lives recorded in the financial management system were generally accurate.

The Corps initially reported an acquisition value of $29.8 billion, accumulated depreciation of $12.2 billion and a net value of $17.6 billion for its buildings and structures. However, our recalculation showed that depreciation was understated by about $358 million. Therefore, the net value of buildings and structures as well as general property, plant and equipment as a whole was overstated by about $358 million. We recommended a $358 million adjustment to accumulated depreciation, and Corps management agreed and made the adjustment. The Corps increased the amount reported for accumulated depreciation to about$12.5 billion, resulting in a net value of $17.2 billion for buildings and structures.

Prior to the adjustment recommended in the previous paragraph, we identified a significant or unusual balance change in accumulated depreciation for FY 01. Specifically, from FY 00 to FY 01, accumulated depreciation for buildings and structures increased by about $878 million. Our analysis showed that about $317 million of this increase was due to corrections for prior-year depreciation based on our previous audit work. The remaining depreciation increase was routine depreciation for FY 01.

Documentation for Buildings and Structures

In FY 99, we reported that the Corps hadn't provided adequate documentation to support the recorded values for over half of the properties in our buildings and structures sample. During fiscal years 2000 and 2001, we worked with Corps management in a major effort to obtain and reconstruct supporting documentation for values on property, plant and equipment assets. Through this effort, we were able to obtain documentation for the items in our sample and, therefore, project that the value of buildings and structures was not materially misstated. In addition, the Corps agreed to maintain supporting documentation in the future for the life of the asset.

General and Application Controls Review

The Corps needed to improve general and application controls related to network and data processing activities. We made an initial review of the general and application controls and concluded that we couldn't rely on the data in the Corps' financial management system as sufficient support for day-to-day transactions related to the operating statements. Because of the control environment related to the financial management system, we didn't attempt to perform the audit work needed to provide an opinion on the statements of net cost, changes in net position, budgetary resources, and financing. We will continue the general and application control review and monitor corrective actions taken by Corps management. As the controls are improved we will be able to increase our reliance on the financial data recorded in the financial system.

Statement of Net Cost

Again in FY 01, the Corps prepared its Statement of Net Cost by appropriation rather than by business programs. In doing so, the Corps complied with DOD guidance, but didn't fully implement the requirements established by the Federal Accounting Standards Advisory Board. In FY 00 we reported that the Corps didn't fully implement the requirements established by the Federal Accounting Standards Advisory Board for its Statement of Net Cost. The Federal Accounting Standards require the Corps to present the statement by business programs, but the Corps presented the statement by appropriation. However, the Corps did comply with the requirements of the DOD Financial Management Regulation. This regulation requires DOD activities to report program costs by appropriation rather than by business program. The Corps has the capability to report by business programs since it has fielded its new standard financial management system.

REPORT ON INTERNAL CONTROLS

For financial reporting purposes, the Corps' internal control objectives are to ensure that:

- Transactions properly record and maintain accountability for assets and permit the preparation of accurate and reliable financial statements.
- Funds, property, and other assets are safe from loss, unauthorized use, or misappropriation.
- Transactions are in accordance with applicable laws and regulations.

Numerous factors, both individually and collectively, comprise the overall control environment. For example:

- Management's perceptions and integrity concerning the importance of controls will reflect in the entity's overall attitude.
- Policies designed to establish some measure of control must be strictly enforced.

Procedures implemented by management should adhere to fundamental control techniques, such as segregating key duties, providing for tests and reconciliations, and limiting access. A comprehensive internal control structure consisting of checks and balances ensures that the control objectives will be met.

FY 01 Review

In planning and performing our audit, we:

- Obtained an understanding of the Corps' internal controls.
- Determined whether these internal controls had been placed in operation.
- Assessed control risk.
- Performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

We randomly selected Corps operating activities, transactions, and personnel and conducted limited testing of internal controls related to:

- Property, plant, and equipment.
- Revenues and receipts.
- Expenses and disbursements.
- Payroll.
- Budgetary resources.
- Financial reporting.
- Information systems.

Our tests of internal controls did not provide sufficient evidence to support an opinion; therefore, we do not express an opinion on the internal controls.

Limitations

Our review of the Corps' internal controls wouldn't necessarily disclose all matters related to financial reporting that might be considered reportable conditions. Under standards issued by the American Institute of Certified Public Accountants used standards that stated:

- Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Corps ability to record, process, summarize, and report financial data consistent with the financial statements.
- Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce-to a relatively low level-the risk that misstatements in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Therefore, losses, noncompliance, or misstatements may occur and not be detected because of the inherent limitations in any system of internal controls. We caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate due to changes in conditions or the degree of compliance with controls may deteriorate.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We evaluated the Corps compliance with the provisions of the laws and regulations listed in the Audit Scope and Methodology section of this report and in Office of Management and Budget Bulletin 01-02 (Audit Requirements for Federal Financial Statements). Our objective was to assess compliance with laws and regulations in relation to the financial statements, not to express an opinion. Therefore, we do not express an opinion on compliance with laws and regulations.

The audit did not identify instances of material noncompliance with selected laws and regulations. An instance of material noncompliance is reportable if it could result in a material misstatement to the financial statements, or if the sensitivity of the matter would cause others to perceive it as significant.

Chief Financial Officers Act of 1990

We evaluated Corps compliance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, and various implementing regulations issued by the Office of Management and Budget and DOD as they relate to financial statement presentation. The Corps has made a concerted effort to meet the act's requirements. In this report, we discuss areas in which the Corps can achieve financial reporting improvements; however, we do not believe these areas represent material noncompliance with the act.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act of 1982 requires the Corps to report annually to the Secretary of the Army about whether its management controls comply with the act's requirements. In its FY 00 annual assurance statement, the Corps added a reported material weakness related to its computer system controls. The Corps continued to report this material weakness in its FY 01 annual assurance statement. We addressed these general and application controls weaknesses in the system-related reports listed in Annex C of this report.

Federal Financial Management Improvement Act of 1996

Under the Federal Financial Management Improvement Act of 1996, we are required to report whether the Corps' financial management system substantially complied with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. To meet this requirement, we performed some tests of compliance and reviewed prior audit work performed during the system's development and after the system was deployed.

We found that the Corps' financial management system substantially complied with two of the three requirements of the Federal Financial Management Improvement Act of 1996. However, because of previously identified deficiencies in general and application controls related to the system, we could not confirm that the system complied with the first requirement of the act.

- **Federal Financial Management System Requirements.** Federal financial management system requirements have been well established in Office of Management and Budget Circular A-127, "Financial Management Systems," dated 23 July 1993, that requires financial management systems to provide complete, reliable, consistent, timely, and useful information. To achieve this goal, the Corps established and maintained a single, integrated financial management system. A review of the system in FY 99 and FY 00 identified deficiencies related to general and application controls of the system. Management personnel at the Corps have reported that action has been taken to correct many of the deficiencies identified. A followup review is scheduled for completion in FY 02. Auditors from the Agency, the General Accounting Office, and an independent public accounting firm are jointly conducting that review. Until the review is completed, we are unable to verify if the system complies with all Federal financial management system requirements.

- **Federal Accounting Standards.** Federal agencies reporting under the Government Management Reform Act of 1994 are to follow accounting standards and concepts agreed to by the Director of the Office of Management and Budget, the Comptroller General, and the Secretary of the Treasury. For FY 01 the financial management system substantially complied with the Federal Accounting Standards. However, the Corps didn't fully implement the requirements established by the Federal Accounting Standards Advisory Board and the format included in Office of Management and Budget Bulletin 01-09 for its FY 01 Statement of Net Cost. The standards and the bulletin require reporting activities to present the statement by business programs, but the Corps presented the statement by appropriation. The Corps did comply with the requirements of the DOD Financial Management Regulation to report program costs by appropriation rather than by business program. The Corps does have the capability to present the statement by business program since it has completed fielding of its standard, integrated financial management system. However, because of the DOD requirement to report by appropriation, the Corps hasn't changed its reporting software to actually produce the report by business program.
- **U.S. Standard General Ledger at the Transaction Level.** The U.S. Standard General Ledger should be implemented at the transaction level or have adequate crosswalks to the U.S. Standard General Ledger. Federal agencies are permitted to supplement their application of the U.S. Standard General Ledger to meet agency-specific information requirements. However, agency standard general ledgers must maintain consistency with the U.S. Standard General Ledger. During FY 01, the Corps completed its conversion to the U.S. Standard General Ledger in its financial management system.

OTHER MATTERS

Overview Information

The Corps overview information is incorporated into the Army's financial statements overview. We reviewed the following information presented in the Corps' overview:

- Background.
- Mission.
- Performance Results.
- Management Initiatives.

We don't express an overall opinion on this information. However, we compared this information for consistency with the financial statements. Based on this limited work, we found no material inconsistencies between the information presented in the overview and the information presented in the financial statements.

Required Supplementary Stewardship Information

The Stewardship Statement addresses only heritage assets because they are the only type of stewardship assets managed under the Corps' Civil Works Program. Deferred Maintenance is reported for Civil Works Water Resources Projects operated and maintained by the Corps. The amount for Deferred Maintenance was determined through the budget development process. We made inquiries of management regarding the methods of preparing the required supplementary stewardship information. We also compared the information to previous periods for consistency. However, we did not audit this information and do not express an opinion on it.

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